EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

December 17, 2003

The Honorable Calvin K.Y. Say, Speaker
and Members of the House of Representatives
Twenty-Second Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear Mr. Speaker and Members of the House:

For your information and consideration, I am transmitting herewith two (2) copies of the Public Utilities Commission's Annual Report for fiscal year ending June 30, 2003. Pursuant to Section 269-5, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at www.hawaii.gov/budget/LegReports/Reports.htm.

Sincerely,

/s/

LINDA LINGLE

Enclosures

EXECUTIVE CHAMBERS

LINDA LINGLE
GOVERNOR

HONOLULU

December 17, 2003

The Honorable Robert Bunda, President
and Members of the State Senate
Twenty-Second Legislature
State Capitol, Room 003
Honolulu, Hawaii 96813

Dear Mr. President and Members of the Senate:

For your information and consideration, I am transmitting herewith two (2) copies of the Public Utilities Commission's Annual Report for fiscal year ending June 30, 2003. Pursuant to Section 269-5, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at www.hawaii.gov/budget/LegReports/Reports.htm.

Sincerely,

/s/

LINDA LINGLE

Enclosures

PUBLIC UTILITIES COMMISSION

STATE OF HAWAII

ANNUAL REPORT
(HAW. REV. STAT. § 269-5)

FISCAL YEAR 2002-03

DECEMBER 2003

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ANNUAL REPORT
FISCAL YEAR 2002-03
(HAW. REV. STAT. § 269-5)

PUBLIC UTILITIES COMMISSION
STATE OF HAWAII

I. INTRODUCTION.

Public utilities are undergoing significant changes due to developments in technology, markets, economic conditions, consumer needs, and environmental concerns that test traditional regulatory theories and frameworks. The challenge faced by regulatory commissions throughout the United States is to recognize these changes and to adapt and adjust regulatory techniques and frameworks to these changes so that commissions can effectively protect the public interest and accomplish its goals and objectives, while it simultaneously allows and encourages the public utilities to efficiently operate, grow, and develop in their respective industries.

The Public Utilities Commission ("Commission") of the State of Hawaii ("State") submits this Annual Report pursuant to Section 269-5, Hawaii Revised Statutes, as amended ("HRS"). In short, this report summarizes the activities and operations of the Commission and the public utilities it regulates during the July 1, 2002 to June 30, 2003 fiscal year ("Fiscal Year"), as well as the Commission's goals and objectives.

II. COMMISSION HISTORY AND BACKGROUND.

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

A. HISTORY.

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

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

B. COMMISSIONERS.

Carlito P. Caliboso, Chairman

Carlito Caliboso was appointed to the Commission and named Chairman of the Commission by Governor Linda Lingle on April 30, 2003. Chairman Caliboso filled the vacancy left by former Commissioner Gregg Kinkley (who served a brief interim appointment to fill the vacancy left by former Chairman Dennis Yamada).

Prior to his appointment, Chairman Caliboso was engaged in private law practice since 1991. Chairman Caliboso is currently a member of the National Association of Regulated Utilities Commissioners ("NARUC"), and serves on NARUC's Committee on Energy Resources and the Environment, and Committee on International Relations. He also serves on the State Energy Emergency Preparedness Advisory Committee. Chairman Caliboso earned a bachelor of business administration degree from the University of Hawaii and a law degree from the William S. Richardson School of Law of the University of Hawaii. His term expires June 2004. Chairman Caliboso succeeds Commissioner Wayne Kimura, as Chair.

Wayne H. Kimura, Commissioner

Wayne Kimura was appointed to the Commission by Governor Benjamin J. Cayetano in December 2001. He served as Chairman of the Commission from July 2002 until April 2003.

Prior to his appointment, Commissioner Kimura served as State Comptroller in the Department of Accounting and General Services. He also served as Deputy Director of Finance in the Department of Budget and Finance ("B&F"). He worked as planning and policy analyst in the Office of Planning. He also worked as researcher or budget analyst in the Office of the Lieutenant Governor, B&F, Department of Social Services and Housing, State Senate, State House of Representatives, and the 1978 Constitutional Convention. Commissioner Kimura holds a degree in psychology from the University of Southern California. His term expires June 2008.

Janet E. Kawelo, Commissioner

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

Prior to her appointment, Commissioner Kawelo served as Deputy Director of the Department of Land and Natural Resources. She also served as special assistant and research supervisor in the Office of the Governor, researcher in the Office of the Lieutenant Governor, and research officer in economic research at First Hawaiian Bank. Commissioner Kawelo holds a degree in bacteriology from the University of California at Berkeley and a professional diploma in elementary education from the University of Hawaii. Her term expires June 2006.

C. ADMINISTRATION AND OFFICES.

The Commission is attached to B&F for administrative purposes.[1] In addition to three commissioners, the Commission has a staff of 24 employees, including an administrative director, attorneys, engineers, auditors, researchers, investigators, a chief clerk, clerical staff, and neighbor island representatives for Maui, Kauai, and Hawaii. The Commission has four offices located throughout the State:

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

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/puc.htm

III. GOALS AND OBJECTIVES OF COMMISSION[2]

A. PRIMARY PURPOSE.

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

B. LONG-TERM GOALS.

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

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

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

Promote and encourage efficient and reliable electricity generation, transmission and distribution.

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

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

C. SHORT-TERM GOALS.

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

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

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

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[2] For a detailed plan of action to implement the Commission's goals and objectives described herein, along with a description of measures to gauge the performance of the Commission in accomplishing its goals and objectives, please also see the Commission's Annual Report dated November 14, 2003, prepared pursuant to Section 7 of Act 100 SLH 1999.

IV. REGULATORY ISSUES AND PROCEEDINGS.

A. MAJOR REGULATORY ISSUES.

The Commission is responsible for regulating 235 utility companies or entities (4 electric, 1 gas, 198 telecommunications, and 32 water and sewer companies), 3 water carriers, 530 passenger carriers and 385 property carriers in the State. During the Fiscal Year, the Commission opened 439 new dockets relating to those regulated utilities and transportation companies, completed and disposed of 394 dockets from its total case load and issued 836 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 approval of the sale of Citizens Communications Company ("Citizens"), Kauai Electric Division ("KE") to Kauai Island Utility Cooperative ("KIUC") for $215 million. Subject to certain terms and conditions, the Commission approved: (1) the amended and restated purchase and sale agreement; (2) the assignment of KE's legislatively-granted franchise to KIUC; (3) the sale of certain of KE's assets; (4) the financing to be obtained by KIUC for the purpose of acquiring KE's assets; and (5) KIUC's use of KE's current rates, tariffs, and rules and regulations. KIUC is unique in Hawaii in that it is a cooperative in which it is owned by almost all of its customers, but still regulated under the Commission's laws, rules and regulations.

In another proceeding, to facilitate the development and use of distributed generation, the Commission approved three electric utilities' proposal to establish interconnection standards and a standard interconnection agreement for distributed generating facilities located on the islands of Oahu, Hawaii, Maui, Molokai and Lanai. Specifically, the Commission approved comprehensive interconnection standards, technical requirements and a standard interconnection agreement that are intended to facilitate the interconnection and parallel operation of a customer's distributed generating facility with the utility's electrical system. The underlying purposes of the technical interconnection requirements are to: (1) maintain safety, reliability, and power quality and restoration; (2) protect the utility's and customer's equipment and facilities; and (3) advance the operating efficiencies of the utility's electrical system.

Commission activities in the area of telecommunications focused on facilitating competition in the local industry marketplace. During the Fiscal Year, the Commission approved various rates and determinations regarding access and attachment to Verizon Hawaii Inc.'s ("Verizon Hawaii") made poles, ducts, conduits, and rights-of-way.

In another telecommunications proceeding, the Commission investigated the availability of experienced providers of quality telecommunications relay services ("TRS"). TRS provide individuals with hearing and speech disabilities telephone transmission services that enable these individuals to communicate by wire or radio with other individuals in a manner that is functionally equivalent to individuals without such disabilities. In April 2003, the Commission selected Sprint Communications Company LP ("Sprint") as the new, exclusive provider of intrastate TRS in the State. In addition, in May 2003, in accordance with Act 50, SLH 2003, promulgated on May 7, 2003, the Commission required all wireline and wireless telecommunications carriers (except payphone companies) providing intrastate telecommunications services in the State to contract with Sprint for the provision of TRS, and to require these carriers to contribute to the TRS fund.

The following sections highlight the significant proceedings of the Commission.

B. ELECTRICITY AND ENERGY PROCEEDINGS.

The Commission regulates four electric utility companies or entities engaged in the production, purchase, transmission, distribution, and sale of electric energy in the State: Hawaiian Electric Company, Inc. ("HECO"), serving the island of Oahu; Maui Electric Company, Ltd. ("MECO"), serving the islands of Maui, Lanai, and Molokai; Hawaii Electric Light Company, Inc. ("HELCO"), serving the island of Hawaii; and 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. HECO, MECO, HELCO, and KIUC proceedings:

a. COMMISSION APPROVES ACQUISITION OF KE BY KIUC.

In March 2002, KE and KIUC filed an application seeking the Commission's approval of: (1) the amended and restated purchase and sales agreement dated March 5, 2002; (2) the assignment of KE's legislatively-granted franchise to KIUC; (3) the sale of certain of KE's assets by Citizens to KIUC; and (4) the financing proposed to be obtained by KIUC for the purpose of acquiring KE's assets. KIUC is a non-profit cooperative association formed for the purpose of acquiring KE.

In July 2002, the Commission granted preliminary approval of the parties' stipulation, subject to final Commission review of all pleadings and information submitted in the docket, issues raised by the County of Kauai's position statement, and the conditions set forth by the Commission. The Commission's preliminary approval was granted based on representations made in the stipulation regarding the need for final approval of the application by September 17, 2002 in order to obtain financing from the Rural Utilities Service ("RUS") for the proposed transaction.

On September 17, 2002, the Commission approved the following, subject to the applicable terms and conditions outlined in the stipulation and the Commission's decision: (1) Amended Agreement, as modified by the stipulation; (2) assignment of KE's legislatively-granted franchise to KIUC; and (3) sale of certain KE assets to KIUC. The Commission also approved the financing to be obtained by KIUC for the purpose of acquiring KE's assets, which consists of funding the $215 million purchase price with RUS municipal rate loan financing, as well as the $25 million secured line of credit and the $60 million disaster recovery line of credit from the National Rural Utilities Cooperative Finance Corporation. In October 2002, the Commission reopened the docket and granted KE's and KIUC's request to amend the Commission's decision to reflect the change in the amortization period of the previously approved RUS financing from 30 years to 25 years.

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

IRP has also become a key vehicle for state regulatory commissions, electric utilities, energy stakeholders, and the public to understand and influence the planning process of identifying and evaluating combinations of demand–side and supply-side resources that will achieve specified objectives and meet forecasted demand. Specifically, the goal of IRP is the identification of the resources or the mix of resources for meeting near and long term consumer energy needs in an efficient and reliable manner at the lowest reasonable cost.

In 1992, the Commission required HECO, HELCO, MECO and KE (nka, KIUC) to develop integrated resource plans in accordance with the IRP Framework. The IRP Framework, which was adopted in May 1992, requires each energy utility to develop a long-range, twenty-year IRP and a medium-range, five-year program implementation schedule (action plan) to be submitted on a three-year planning cycle for the Commission's review and approval. Generally, the IRP Framework further prescribes what the utilities are required to do and the factors to be considered in developing their respective integrated resource plans. Among other things, it also encourages public participation in the development of each utility's integrated resource plan, and subject to Commission review and approval, allows the utility to seek the recovery of all appropriate and reasonable integrated planning and implementation costs. In addition, the IRP Framework provides the Commission with the authority to establish various incentive mechanisms to encourage and reward aggressive utility pursuits of demand-side management ("DSM") programs (i.e., shareholder incentives and lost margins[3]).

Below is a summary of the status of electric utility IRPs and action plans as of June 30, 2003.

HECO's first IRP and action plan were approved in March 1995. In January 2001, the Commission approved the parties' agreement that HECO's second IRP and action plans are sufficient to meet HECO's responsibilities under the IRP Framework. On December 31, 2002, HECO filed its evaluation report of its second IRP. HECO's third IRP and action plans are due October 31, 2005.[4]

MECO's first IRP and action plan were approved in May 1996. MECO's revised IRP was filed in May 2000. The parties filed position statements in May 2001. This IRP proceeding was pending at the end of the Fiscal Year.[5]

HELCO's first IRP and action plan were approved in May 1996. The company's revised IRP was filed in September 1998. This docket was pending at the end of the Fiscal Year.[6]

KE's first IRP was approved in July 1995. KE filed its revised IRP in April 1997. In August 2000, KE filed its annual update report of the IRP. This docket was pending at the end of the Fiscal Year.[7]

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[3] In November 2001, the Commission required, consistent with the parties' stipulation, that if HECO exceeds its current authorized rate of return of 9.16 per cent on its average rate base determined in its last rate case in 1995, as a result of its recovery of lost margins and shareholder incentives, HECO shall refund the amount by which its rate of return on average rate base exceeds 9.16 per cent, together with interest. D&O Nos. 19019 and 19020, November 15, 2001. The Commission issued similar decisions, consistent with the parties' stipulation, for HELCO (Amended D&O No. 19094, December 11, 2001) and MECO (D&O No. 19093, November 30, 2001). Under D&O No. 02-0060, KIUC waived "all claims they may have to recover earned, but unbilled demand side management shareholder incentives from KE customers."

[4] In September 2003, the Commission opened a proceeding to examine HECO's third IRP.

[5] The Commission held a status conference on November 25, 2003 with all parties to discuss the procedural status of this case and to schedule further proceedings to resolve this matter, so that MECO's new IRP cycle may commence as soon as possible.

[6] The Commission held a status conference on November 25, 2003 with all parties to discuss the procedural status of this case and to schedule further proceedings to resolve this matter, so that HELCO's new IRP cycle may commence as soon as possible.

As previously mentioned, one of the Commission's objectives is to review and resolve outstanding dockets. Concerning many of the IRP dockets that are presently pending for a number of years, the Commission has placed a high priority in finding innovative means to address and resolve these dockets.

c. COMMISSION APPROVES HECO, HELCO, and MECO INTERCONNECTION STANDARDS.

In January 2002, HECO, HELCO, and MECO (collectively, "utilities") filed transmittals requesting to establish interconnection standards and a standard interconnection agreement for distributed generating facilities operating in parallel with the utilities' respective electrical systems.

In September 2002, the utilities and the Department of Commerce and Consumer Affairs' Division of Consumer Advocacy ("Consumer Advocate") (collectively, "parties") jointly proposed to modify the Rule 14 tariff by adding a new paragraph H incorporating by reference the utilities' interconnection standards, interconnection agreement, and interconnection procedures. In order to facilitate the development and use of distributed generation in the State, the Commission made certain observations with respect to the utilities' proposal. In November 2002, the Commission conditionally approved the parties' joint submission. The Commission instructed the utilities to submit their revised tariffs incorporating any revisions made resulting from their review of the Commission's observations.

In March 2003, the Commission approved the parties' joint revised submission filed in response to the Commission's observations. The utilities revised their submission by: (1) changing the time limit from the 60-day limit to 150 days, followed by a 30-day period to request an extension, for existing customers with on-site distributed generating facilities to execute an agreement with the utility; (2) including a grandfather provision that exempts existing customers already operating in parallel with the utilities' systems from being charged for any additional technical studies; (3) removing the one-year contractual term in the initial standard interconnection agreement and including a provision stating that the agreement will continue in effect until terminated by the utility or customer upon the specified occurrences; (4) clarifying that the customer, at any time during the interconnection process, has the option of seeking relief with the Commission through the complaint process; and (5) establishing reasonable target dates for the numerous steps involved in the interconnection process. The utilities are required to submit quarterly and annual reports to the Commission and Consumer Advocate.

d. COMMISSION APPROVES HELCO AND HAWI RENEWABLE DEVELOPMENT, INC. ("HRD") POWER PURCHASE AGREEMENT ("PPA").

In January 2003, the Commission approved the PPA, as amended, between HELCO and HRD. HRD will design, construct, own, operate, and maintain an estimated 5.28 megawatt wind farm. HRD also will construct, operate, and maintain a switching station for its wind farm. HELCO or a contractor will construct, operate, and maintain all HELCO-owned interconnection facilities. The Commission also approved HELCO's request to commit funds of approximately $883,000 for the HELCO-owned interconnection facilities. The facilities are required to interconnect HELCO's system with HRD's wind farm. HRD will provide energy to HELCO on an unscheduled basis as energy is available. HELCO is allowed to include, in its energy cost

[7] On October 17, 2003, KIUC filed a request to extend its due date to submit its new IRP Plan from December 31, 2003 to December 31, 2004.

adjustment clause, the purchased energy costs and related revenue taxes that it incurs under the PPA.

e. COMMISSION APPROVES MECO PIPELINE CONNECTION AGREEMENT AND GRANT OF EASEMENT.

In February 2003, the Commission approved the pipeline connection agreement and grant of easement between MECO and Alexander & Baldwin, Inc., through its division Hawaiian Commercial & Sugar Company ("HC&S"). HC&S will construct a new above-ground pipeline over MECO's property which would connect MECO's existing 8-inch pipeline to a storage tank owned by Maui Petroleum, Inc. The new pipeline will facilitate delivery of fuel oil and thereby support the generation and delivery of electricity by HC&S to MECO, pursuant to the amended and restated PPA between MECO and HC&S.

f. COMMISSION APPROVES HECO POLE ATTACHMENT AGREEMENT.

In October 2002, the Commission approved the pole attachment agreement between HECO and AT&T Corp. ("AT&T"). Through the agreement, HECO will grant AT&T a non-exclusive license to install copper and fiber optic cables on certain HECO 46kV subtransmission poles at Schofield Barracks.

g. COMMISSION APPROVES HECO AND HELCO FINANCING.

The Commission approved requests regarding special purpose revenue bonds ("SPRBs") for HECO and HELCO.

In August 2002, the Commission authorized HECO to borrow from B&F or its trustees up to a total of $40 million representing the proceeds of the sale of SPRBs authorized by Act 262, SLH 1998. The revenue bond proceeds represent the remaining unused 1998 legislative authorization for HECO. In 1999, the Commission granted HECO and HELCO the authority to borrow from B&F up to a total of $75 million and $25 million, respectively, from the sale of SPRBs authorized under Act 262. The proceeds from the sale of the revenue bonds will be used to finance a supplemental project list of energy projects that were not previously approved by the Commission.

In April 2003, HECO and HELCO were granted approval to participate in the sale by B&F of refunding SPRBs. The Commission authorized HECO and HELCO to borrow from B&F or its trustees up to total of $40 million and $26 million, respectively. The proceeds of the sale of the refunding bonds will be used to redeem the remaining Series 1992 bonds, the remaining Series 1990C Bonds, and/or the remaining Series 1990B Bonds.

C. GAS.

Citizens, dba The Gas Company ("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.

Proceedings involving TGC are described below.

1. ACQUISITION OF TGC PROPOSED.

In February 2003, TGC, K-1 USA Ventures, Inc., and Hawaii Gas Company, L.L.C. nka The Gas Company LLC ("TGC-LLC") filed a joint application for approval of the sale of TGC's assets. TGC-LLC was formed for the purpose of: (1) acquiring certain assets and assuming certain liabilities of TGC; and (2) owning and operating TGC's regulated and non-regulated gas operations. According to an asset purchase agreement between Citizens and K-1 USA Ventures, Citizens will sell TGC's assets to TGC-LLC for a base purchase price of $115 million, with TGC-LLC assuming TGC's liabilities. (In July 2003, the Commission approved the sale of TGC's assets from Citizens to TGC-LLC.)

2. TGC-LLC'S IRP ACTIVITIES.

In 1990, the Commission identified TGC-LLC as an energy utility because it is engaged in the production and distribution of energy in the State. While the Commission recognized that the industry structure, resource portfolio, and action plans of a gas utility may differ from those of electric utilities in the IRP process, the Commission believed at that time that the same underlying objectives and principles of the IRP may apply to all energy utilities. As a result of the Commission's IRP investigation in the early 1990s, TGC-LLC was required to develop an IRP in accordance with IRP Framework. In 1996, TGC-LLC was ordered to commence its next IRP cycle. In March 1999, TGC-LLC filed its revised 2nd IRP with the Commission.

However, in January 2003, the Commission determined that its review and approval of TGC-LLC's revised 2nd IRP is unnecessary and that TGC-LLC is hereinafter excused from developing and filing an IRP with the Commission in accordance with the IRP framework, particularly in light of the Commission's 2002 decision in TGC-LLC's rate case and the parties' position in the proceeding. In TGC-LLC's rate case, the Commission ordered that TGC-LLC's participation in future IRP filings be waived until TGC-LLC faces the need for additional SNG capacity. In the IRP proceeding, TGC-LLC was ordered to immediately report any change in circumstances (i.e., facing the need for additional SNG capacity) and the reasons for the changes to the Commission and the parties.

D. TELECOMMUNICATIONS.

The Commission oversees the intrastate cellular, paging, mobile telephone, and other services of telecommunications providers in addition to the services of Verizon Hawaii, formerly known as GTE Hawaiian Telephone Company Incorporated ("GTE Hawaiian Tel"), the State's only incumbent local exchange carrier and largest provider of intrastate services.

During the Fiscal Year, the Commission's emphasis in the telecommunications area continues to be on encouraging local competition within the parameters of state and federal telecommunications laws. In Docket No. 7702, the ongoing communications infrastructure proceeding, the Commission's rulings were significant as they clarified the framework for competitive entry in this increasingly dynamic industry. By continuing to improve the framework for competition, the Commission furthers the State's efforts to offer customers more choices of telecommunications services at competitive prices. In other proceedings, the Commission approved several interconnection agreements between Verizon Hawaii and other telecommunications service providers.

Also, during the Fiscal Year, the Commission selected a new provider for TRS and established a more flexible mechanism to fund the provision of TRS.

Key activities in telecommunications are highlighted below.

1. DEVELOPMENT OF THE STATE'S COMMUNICATIONS INFRASTRUCTURE.

Activities in the Commission's ongoing communications infrastructure docket, Docket No. 7702, opened in May 1993, have focused on the development of the infrastructure necessary to support the introduction, deployment, and use of advanced communications technologies and services in the State. In Phase I of the Commission's investigation, HAR Chapters 6-80 and 6-81, relating to competition in telecommunications services and the universal service fund, respectively, were adopted in 1996. In January 1999, the Commission addressed many of the Phase II issues including unbundled network elements ("UNEs"), collocation, and other issues. In January 2000, the Commission granted the request of the non-Verizon Hawaii parties for a generic proceeding ("Phase III") to review Verizon Hawaii's cost studies on non-recurring charges ("NRCs") and collocation issues. In December 2000, the Commission adopted rates for UNEs and also approved the parties' stipulation on many of the Phase III issues regarding NRCs and collocation. In November 2001, the Commission, among other things, denied Verizon Hawaii cost recovery associated with its operations support services and national open market centers.

During the Fiscal Year, the Commission ruled on various rate matters and intrastate collocation tariff issues. In July 2002, the Commission approved the various rates and determinations with regards to access and attachment to Verizon Hawaii's poles, ducts, conduits, and rights-of-way, as specified in the Commission's order. In October 2002, the Commission also approved the stipulated maximum pole rates for the year 2001 and the stipulated maximum pole and duct rates for the year 2002 filed by Verizon Hawaii, pursuant to the parameters established by the Commission.

Additionally, the Commission approved Verizon Hawaii's revised collocation tariff in July 2002. Also, pursuant to the Commission's order, Verizon Hawaii and AT&T submitted proposed rates for the provisioning of DC power and backup DC power for adjacent on-site collocation arrangements for Commission review and approval.

2. COMMISSION CERTIFICATES NEW TELECOMMUNICATIONS CARRIERS.

The Commission certificated 22 new telecommunications companies in the Fiscal Year, including 20 resellers of various intrastate wireless, calling card, and interexchange (long-distance) telecommunications services; 1 provider of operator services; and 1 provider/reseller of intrastate telecommunications services.

3. COMMISSION EXAMINES REGULATORY EXEMPTIONS FOR WIRELESS TELECOMMUNICATIONS CARRIERS.

In recent years, the Commission recognized that there has been an expansion in the development and deployment of wireless telecommunications technologies and services internationally, nationally and locally, and that developing and promoting investment in new and innovative wireless telecommunications technologies will continue to impact the economy, education, health, safety, leisure, general welfare, and prosperity of the State and its people in the future. In addition, during the 2003 legislative session, various wireless telecommunications carriers in Hawaii supported measures intended to streamline the regulation of these carriers.

Consequently, in June 2003, the Commission instituted a proceeding to examine the issues surrounding whether it is consistent with the public interest to exempt Commercial Mobile

Radio Services ("CMRS") providers, their services, or both from any provision of Chapter 269, HRS. CMRS providers are also commonly known as wireless telecommunications carriers. CMRS includes cellular, paging, and personal communications services. The Commission made the Consumer Advocate and all currently registered CMRS providers as parties to the proceeding, which is expected to be resolved during the next fiscal year (2003-04).

4. COMMISSION APPROVES ACQUISITION OF AMERITECH MOBILE COMMUNICATIONS, LLC DBA CINGULAR WIRELESS ("CINGULAR WIRELESS").

In April 2003, the Commission approved the AT&T Wireless Services of Hawaii, Inc.'s proposal to acquire all of Cingular Wireless' assets. The Commission also approved AT&T Wireless Services of Hawaii, Inc.'s request to amend its certificate by expanding its service area to include the island of Kauai, the service area previously served by Cingular Wireless. AT&T Wireless Services of Hawaii also provides cellular communications services in the County of Maui, islands of Oahu and Hawaii, and the immediate surrounding waters.

5. COMMISSION APPROVES INTERCONNECTION AGREEMENTS.

The Federal Telecommunications Act of 1996 and Section 6-80-54, HAR, require telecommunications service providers to submit to the Commission for review and approval any agreements for access, interconnection, unbundling, or network termination adopted by negotiation or arbitration.

During the Fiscal Year, the Commission approved the following interconnection agreements and amended agreements between telecommunications service providers and Verizon Hawaii:

1-800-Reconex, Inc. ("Reconex"). In July 2002, the Commission approved the amendment to the negotiated interconnection agreement between Verizon Hawaii and Reconex. The amendment changes specific provisions of the Commission-approved interconnection agreement regarding payment for internet traffic. Reconex is a certificated provider of resold local exchange telecommunications services in the State.

AT&T Wireless Services, Inc. ("AT&T Wireless"). In July 2002, the Commission approved the second amendment to the negotiated interconnection agreement between Verizon Hawaii and AT&T Wireless. The amendment sets forth new reciprocal compensation rates for the transport and termination of calls.

DSLnet Communications LLC ("DSLnet"). In July 2002, the Commission approved the negotiated interconnection agreement between Verizon Hawaii and DSLnet. DSLnet is a certificated provider of facilities-based and resold telecommunications services in the State.

Level 3 Communications, LLC ("Level 3 Communications"). In July 2002, the Commission approved Level 3 Communications' adoption of the Commission-approved negotiated interconnection agreement between Verizon Hawaii and Ciera Network Systems, Inc.

In April 2003, the Commission approved the amendment to the negotiated interconnection agreement between Verizon Hawaii and Level 3 Communications. The amendment sets forth certain terms and definitions regarding reciprocal compensation and internet service provider-bound traffic.

Level 3 Communications is a certificated provider of facilities-based and resold telecommunications services in the State.

NPCR, Inc., dba Nextel Partners ("NPCR"). In July 2002, the Commission approved the amendment to the negotiated interconnection agreement between Verizon Hawaii and NPCR. The amendment sets forth new reciprocal compensation rates for the transport and termination of calls. NPCR is a certificated provider of CMRS in the State.

Sprintcom Inc., dba Sprint PCS ("Sprint PCS"). In August 2002, the Commission approved the amendment to the negotiated interconnection agreement between Verizon Hawaii and Sprint PCS. The amendment changes provisions of the Commission-approved interconnection agreement regarding payment for internet traffic.

In September 2002, the Commission approved the second amendment to the negotiated interconnection agreement between Verizon Hawaii and Sprint PCS. The amendment allows Sprint PCS to provide E911 service to its end user customers using the systems and databases established and maintained by Verizon Hawaii. Sprint PCS is a certificated provider of CMRS in the State.

QuantumShift Communications, Inc. ("QuantumShift"). In August 2002, the Commission approved the amendment to the negotiated interconnection agreement between Verizon Hawaii and QuantumShift. The amendment clarifies the relationship between Verizon Hawaii and QuantumShift with respect to the availability of reciprocal compensation for internet traffic. As certain provisions of the agreement are appropriate only for a carrier providing facilities-based services, the Commission advised QuantumShift to amend its existing certificate or apply for a new certificate to include the authority to provide facilities-based services. QuantumShift is a certificated provider of resold telecommunications services in the State.

In December 2002, the Commission approved QuantumShift's adoption of the negotiated interconnection agreement between Verizon California, Inc. and Sprint.

Direct Telephone Company, Inc. ("Direct Telephone"). In September 2002, the Commission approved the negotiated interconnection agreement between Verizon Hawaii and Direct Telephone. Direct Telephone is a certificated provider of facilities-based and resold telecommunications services in the State. (In December 2002, Direct Telephone was granted an amended certificate to operate as a facilities-based carrier and reseller of intrastate telecommunications services in the State. Direct Telephone's original certificate granted authority to provide only resold telecommunications services.)

Excel Telecommunications, Inc. ("Excel"). In September 2002, the Commission approved the negotiated interconnection agreement between Verizon Hawaii and Excel. Excel is a certificated provider of facilities-based and resold telecommunications services in the State.

ICG Telecom Group, Inc. ("ICG"). In September 2002, the Commission approved ICG's adoption of the negotiated interconnection agreement between Verizon California, Inc. and ICG and the amendment to the interconnection agreement. ICG is a certificated provider of facilities-based and resold telecommunications services in the State.

Verizon Avenue. In October 2002, the Commission approved the negotiated interconnection agreement between Verizon Hawaii and Verizon Avenue. Verizon Avenue is a certificated provider of facilities-based and resold telecommunications services in the State.

Universal Access, Inc., dba UAI of Hawaii ("UAI"). In December 2002, the Commission approved the negotiated interconnection agreement between Verizon Hawaii and UAI. UAI is a certificated provider of facilities-based and resold telecommunications services in the State.

Cellco Partnership, dba Verizon Wireless ("Verizon Wireless"). In December 2002, the Commission approved the second amendment to the negotiated interconnection agreement between Verizon Hawaii and Verizon Wireless. The amendment establishes new reciprocal compensation rates for local traffic transport and termination and sets forth other conditions and definitions for service. Verizon Wireless is a certificated provider of CMRS in the State.

6. COMMISSION APPROVES LICENSE AGREEMENTS.

During the Fiscal Year, the Commission approved the following licensing agreements between Verizon Hawaii and telecommunications services providers and a government agency:

Pole Attachment and Conduit Occupancy Licensing Agreement. In July 2002, the Commission approved a pole attachment and conduit occupancy licensing agreement, as amended, between Verizon Hawaii and Pacific LightNet, Inc. ("Pacific LightNet"). The agreement governs Pacific LightNet's non-exclusive revocable license to occupy, place and maintain attachments on Verizon Hawaii's poles or in Verizon Hawaii's conduits for the purpose of providing cable television and/or telecommunications services. The amendment establishes the agreement's ocean access fees.

In February 2003, the Commission approved the second amendment to the licensing agreement between Verizon Hawaii and Pacific LightNet. The amendment establishes new pole and duct rates. Pacific LightNet is a certificated provider of facilities-based and resold telecommunications services in the State.

License Agreement for Use of Koko Head Radio Station. In January 2003, the Commission approved Verizon Hawaii's license agreement to license ground space at its Koko Head Radio Station on the island of Oahu to Craig Wireless Honolulu Inc. ("Craig Wireless"). Craig Wireless intends to use the space for the construction, maintenance, and operation of its equipment. Craig Wireless provides wireless digital television service in the State.

License Agreement for Use of Ookala Radio Site. In January 2003, the Commission approved Verizon Hawaii's application to license ground space at the Ookala radio site on the island of Hawaii to Verizon Wireless for the operation and maintenance of equipment for cellular telephone services.

License Agreement for Use of Tantalus Transmission Facility. In June 2003, the Commission approved Verizon Hawaii's application to license space at its Tantalus transmission facility on the island of Oahu to the Federal Bureau of Investigation ("FBI"). The licensing agreement between Verizon Hawaii and the

FBI allows the FBI to use the space for the maintenance and operation of its equipment for communications purposes related to national security.

License Agreements for Use of Tower and Other Sites. In June 2003, the Commission approved Verizon Hawaii's application to license and sublicense 16 sites located throughout the State to Island Page, Inc. ("Island Page") for the operation of paging services. The sites include 12 tower sites, Puuloa Central Office, Kukuiolono Radio Station, Kalepa Radio Station, and Alakea Central Office. The Commission approved Verizon Hawaii's sale of its paging business and assets to Island Page in April 2003. Island Page is a registered CMRS provider of paging services in the State.

7. COMMISSION SELECTS NEW TRS PROVIDER.

Since 1989, Verizon Hawaii provided TRS in Hawaii. In February 2003, Verizon Hawaii notified the Commission of its plan to terminate its TRS in July 2003.

In March 2003, the Commission instituted a proceeding to investigate the availability of quality TRS providers. The Commission adopted a request for services ("RFS") soliciting proposals for the provision of TRS in the State. The Commission's RFS evaluation committee for TRS reviewed the proposals filed with the Commission and recommended the selection of Sprint. On April 30, 2003, the Commission selected Sprint as the exclusive provider of intrastate TRS within the State from July 1, 2003 to June 30, 2006.

In May 2003, the Commission required every telecommunications carrier providing intrastate telecommunications services in the State to contract with Sprint for the provision of TRS. The Commission also required every carrier, excluding payphone providers, to contribute to the TRS fund. Contributors' contribution to the TRS fund shall be the product of their gross operating revenues from the retail provision of intrastate telecommunications services during the preceding calendar year and a contribution factor determined annually by the Commission. The contribution factor for the period July 1, 2003 to June 30, 2004 is .00375. Annual contributions are due on July 26th. Carriers who owe contributions of $1,200 or more may pay in twelve equal monthly installments, due on the 26th of each month. Each carrier must pay a contribution of at least $37.50 per year to the TRS fund. Sprint has contracted with NECA Services, Inc. to administer the TRS fund.

8. COMMISSION APPROVES PROPOSED SERVICE OFFERINGS.

Section 6-80-35(e), HAR, prohibits a telecommunications carrier from offering a noncompetitive telecommunications service jointly with any fully or partially competitive service or with any interstate, international, or other service not within the jurisdiction of the Commission without the Commission's express approval. During the Fiscal Year, the Commission approved the following offerings of joint services proposed by Verizon Hawaii.

In August 2002, the Commission approved Verizon Hawaii's proposed offering of its CentraNet, CustoPAK, and WorkSmart services in conjunction with Verizon Business Digital Subscriber Line ("DSL") Internet Services and its interstate toll services. Verizon Hawaii will provide business customers who subscribe to its CentraNet, CustoPAK, and/or WorkSmart services with a 10 per cent discount on the monthly recurring charge on qualifying Business DSL Internet Services, if the customers also select any of Verizon Hawaii's affiliates as the customers' primary interexchange carrier for interstate long distance toll services for at least one of their lines.

In August 2002, the Commission approved Verizon Hawaii's application to offer its Local Package or Local and Toll Package in conjunction with Verizon interstate toll services and Verizon Online DSL or Verizon Online Dialup Internet Services on a promotional basis. Verizon Hawaii will offer residential customers who subscribe to its Local Package or Local and Toll Package on one or more lines and who also select any Verizon affiliate as their primary interexchange carrier for intrastate and interstate long distance toll services on all lines either a $15 discount on the qualifying Verizon Online DSL Services or a $2.95 discount on the qualifying Verizon Online Dialup Internet Services.

In September 2002, the Commission approved Verizon Hawaii's proposed offering of its CentraNet, CustoPAK, and WorkSmart services in conjunction with Verizon long distance interisland toll and Verizon Hawaii voice messaging (a.k.a., voice messaging mailbox) services. Verizon Hawaii will provide business customers who subscribe to its CentraNet, CustoPAK, and/or WorkSmart services with a 15 per cent discount on their monthly recurring charge for qualifying voice messaging mailbox service, if the customers also select any Verizon affiliate as their local primary interexchange carrier for long distance interisland toll services on all of their lines.

In December 2002, the Commission approved Verizon Hawaii's proposed offering of its Local Package in conjunction with Verizon interisland and interstate long distance toll services and Verizon Wireless services on a promotional basis (to run concurrently with its Local Package promotional offering). Verizon Hawaii will provide residential customers of its Local Package, on one or more lines, who also select any Verizon affiliate as their primary interexchange carrier for interisland and interstate long distance toll services, on all lines, with a $5 discount on the monthly recurring charge on qualifying Verizon Wireless Price Plans.

In March 2003, the Commission approved Verizon Hawaii's application to offer its FlexGrow Trunk service in conjunction with Verizon Online ("VOL") Dedicated Internet Access and Verizon interisland long distance toll services. Verizon Hawaii will provide business customers who subscribe to its FlexGrow Trunk service and who also select VOL Dedicated Internet Access Services and any Verizon affiliate as their primary interexchange carrier for interisland long distance toll services on all of their FlexGrow Trunk service lines with a 5 per cent discount on the recurring charge for the qualifying VOL Dedicated Internet Access Service.

In May 2003, the Commission approved Verizon Hawaii's request to allow Local Package Plus customers to be eligible for Verizon Veriations Internet access and wireless service discounts. Verizon Hawaii will provide these customers with a $15 discount on qualifying digital subscriber lines or a $2.95 discount on qualifying dialup internet access services, and a $5 discount on qualifying Verizon Wireless plans.

9. TARIFF CHANGES.

During the Fiscal Year, the Commission approved the following tariff changes for Verizon Hawaii:

Interisland Toll Services Discounts. In October 2002, the Commission approved Verizon Hawaii's tariff changes to establish rates and charges for its Corporate Rewards Business Optional Calling Plan. Verizon Hawaii will provide business customers with discounted interisland toll rates according to the amount of their usage and additional discounts based on the number of years that the customers remain with the plan and the level of usage per line.

Maximum Monthly Occurrences and Charges Increased. In November 2002, the Commission approved Verizon Hawaii's proposal to increase the maximum number of chargeable occurrences from 12 to 19 per month for three service features: automatic busy redial (*66); automatic call return (*69); and three-way calling. Accordingly, the cap on the monthly charge for 19 or more uses within a single month will increase from $9.00 to $14.25.

Return Payment and Late Payment Charges. In November 2002, the Commission approved Verizon Hawaii's proposal to revise its tariff by increasing the return payment charge from $9 to $20 per returned payment and increasing the late payment charge from 1 per cent to 1.5 per cent per month.

SoundDeal Package (nka Local and Toll Package). In February 2002, the Commission approved Verizon Hawaii's SoundDeal tariff, offering a package of services for residential customers statewide. The SoundDeal package offers, at a discounted rate, inter-island toll, residential, touch calling, custom calling, and basic voicemail services. The Commission approved Verizon's request to offer its SoundDeal package for a one-year promotional period.

In January 2003, the Commission approved Verizon Hawaii's request to: (1) prematurely cease its promotional program for new customers; (2) grandfather the Local and Toll Package by allowing existing customers to continue subscribing to the package if the customer so chooses; and (3) to discontinue the package once existing customers transition off of the package. In June 2003, the Commission approved Verizon Hawaii's updated plan to phase-out existing subscribers from the Local and Toll Package.

Local Package Plus. In May 2003, the Commission approved Verizon Hawaii's proposal to offer a new package of telecommunications services to residential customers known as Local Package Plus at a discounted flat rate of $49.95 per month. Customers will be provided residential line, touch call, unlimited directory assistance, custom calling features, optional residential home voice mail, and unlimited inter-island toll telecommunications services.

10. NORTH AMERICAN NUMBERING PLAN ADMINISTRATOR'S ("NANPA") DENIAL OVERTURNED.

During the Fiscal Year, two petitions were filed requesting the Commission to overturn NANPA's denial of applications for a central office code assignment request. The FCC vested state public utility commissions with the authority to overturn or affirm a NANPA denial of a carrier's request of numbering resources.

Verizon Hawaii. In October 2002, the Commission overturned NANPA's denial of Verizon Hawaii's request for a central office code assignment for the U.S. Department of Defense, Defense Information Systems Agency's ("DISA") Enhanced Mobile Satellite Services ("EMSS") gateway in Wahiawa. Verizon Hawaii could not accommodate DISA's request for a new prefix of 10,000 sequential telephone numbers for its EMSS gateway. Its central office code assignment request to NANPA, the entity that controls the release of telephone numbers nationally, was denied.

Sandwich Isles Communications, Inc. ("Sandwich Isles"). In June 2003, the Commission overturned NANPA's denial of Sandwich Isles' request for a new central office code assignment to serve its existing and future customers on the island of Oahu, provided that Sandwich Isles is only authorized to receive and retain 1,000 of these numbers. Sandwich Isles' request for a new "620" growth central office code was denied by NANPA. Sandwich Isles is a certificated provided of intrastate telecommunications services in the State, restricted to providing these services on lands administered by the State Department of Hawaiian Home Lands.

E. PRIVATE WATER AND SEWAGE UTILITIES.

The Commission regulates 32 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 a rate case and requests for Certificates of Public Convenience and Necessity ("CPCNs").

1. KAUPULEHU WASTE WATER COMPANY ("KWWC") RESTRUCTURED RATES APPROVED.

In November 2002, the Commission approved KWWC's request to change its wastewater rates, consistent with the terms of the Commission order. KWWC's restructured rates include changes to its monthly standby charge, monthly water consumption charge, and electricity charge. The effective date of KWWC's tariff changes and restructured rates is December 6, 2002. KWWC processes wastewater for residential, condominium, hotel, and commercial/office customers in the Kaupulehu service area on the island of Hawaii.

2. COMMISSION APPROVES NEW CPCNs.

During the Fiscal Year, the Commission approved the following new CPCNs for water and sewage utilities:

Puuwaawaa Waterworks, Inc. ("PWI"). In January 2003, the Commission approved a CPCN, as amended, for PWI to provide water utility services for portions of Puuwaawaa and Puuanahulu homesteads in North Kohala on the island of Hawaii. As PWI began operating without first obtaining its CPCN, the Commission's approval was granted, nunc pro tunc (or after the fact).

Kukio Utility Company, LLC ("KUC"). In March 2003, the Commission approved a CPCN for KUC to provide potable and non-potable water and wastewater treatment services for Phase 1 of a master planned community known as the Kukio Beach Club situated at Kukio, North Kona on the island of Hawaii.[8]

Launiupoko Water Company, LLC ("LWC"). In June 2003, the Commission approved a CPCN for LWC to provide water utility services on the island of Maui.

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[8] In November 2003, upon reconsideration, the Commission determined, among other things, that KUC may treat its non-potable water irrigation service as unregulated at this time.

3. Acquisition of Kaanapali Water Corporation ("KWC") Stock Approved.

In March 2003, the Commission approved California Water Service Group's acquisition of all of the outstanding stock of KWC from Aquasource Utility, Inc. ("Aquasource"). KWC is a wholly-owned subsidiary of Aquasource and provides water service to hotel, condominium, residential, commercial and other customers.

F. TRANSPORTATION CARRIERS.

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 limitations, 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 belong either to 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.

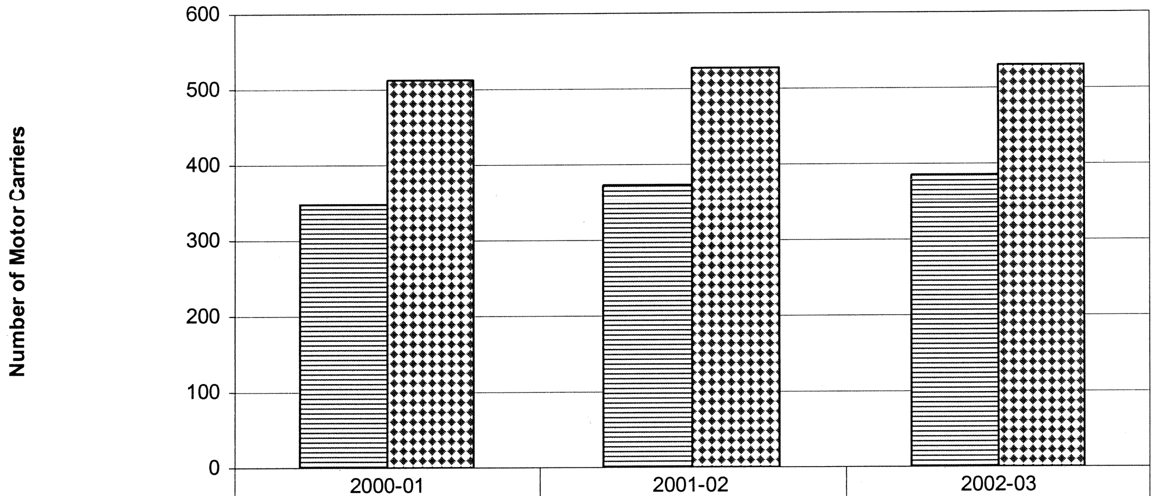
In accordance with its statutory requirements, the Commission performs the following functions in the regulation of motor carriers: (1) certification and licensing; (2) ratemaking; and (3) business regulation. The Commission's efforts are primarily spent on the licensing and ratemaking functions. During the Fiscal Year, the Commission also issued many new certificates and licenses, reviewed requested rate increases, and reviewed and approved fuel surcharge increases for property motor carriers.

a. COMMISSION APPROVES NEW MOTOR CARRIER CERTIFICATIONS.

The Commission regulates 530 passenger carriers and 385 property carriers in the State. During the Fiscal Year, new certificates or permits were issued to 95 motor carriers—61 passenger carriers and 34 property carriers.

Authorized motor carriers have increased steadily over the past three years, as shown in the graph and table reference.

Figure 1
Regulated Motor Carriers



	2000-01	2001-02	2002-03
Property Carriers	345	373	385
Passenger Carriers	512	527	530

Fiscal Year

b. COMMISSION REVIEWS FUEL SURCHARGE INCREASES.

During the Fiscal Year, the Commission reviewed and approved rate notices filed each quarter by WMTB requesting fuel surcharge increases for its property motor carriers. In the last notices approved by the Commission in April 2003, the fuel surcharge increases are:

(1) from 2.05 to 3.01 per cent on the island of Hawaii, 1.79 to 2.77 per cent on the island of Kauai, and zero to 1.03 per cent on the island of Oahu for dump truck carriers;

(2) from 1.23 to 1.96 per cent on the island of Kauai for general commodities carriers;

(3) from .32 to .75 per cent on the island of Oahu for general commodities carriers;

(4) from 1.63 to 2.18 per cent on the island of Hawaii for general commodities carriers; and

(5) from 1.63 to 2.18 per cent on the island of Hawaii, .23 to 1.96 per cent on the island of Kauai, and .32 to .75 per cent on the island of Oahu for break bulk and delivery carriers.

These fuel surcharges became effective on April 21, 2003.

c. COMMISSION REVIEWS REQUESTS FOR RATE INCREASES.

The Commission reviewed and approved the following motor carrier rate increases and decreases during the Fiscal Year:

Type of Carrier/Company (County)	Rate Increase or Decrease
Dump Truck	
B & C Trucking (Oahu)	6.00%
C &F Trucking (Hawaii)	-3.01%
General Commodities	
Dependable - DHX (Oahu)	3.00%
Pine Enterprises (Oahu)	4.00%
Martin Warehousing (Oahu)	3.50%
Hawaii Transfer (Oahu)	3.75%
Kuwaye Trucking (Hawaii)	7.63%
DHX Maui, Inc. (Maui)	5.00%
Passenger	
Elite Limousine (Oahu)	8.00%
PHT, Inc. (Oahu)	5.00%

The following rate notices published by WTMB on behalf of its member carriers were not approved because the carriers who would benefit from the rate increases either failed to prove that the proposed rate increases were just and reasonable, or subsequently withdrew the application after the Commission requested further information.

Type of Carrier/Company (County)	Requested Rate Increase
Dump Truck	
Oahu Dump Truck (various carriers)	6.00%
Kauai Dump Truck (various carriers)	5.00%
General Commodities	
Statewide Household Goods (various carriers)	5.00%
Household Goods M. Dyer & Sons, Inc.	5.00%
Statewide Household Goods (various carriers)	5.00%
Passenger	
Oahu Passenger (various carriers)	5.00%
Oahu Passenger - PHT, Inc., dba Polynesian Hospitality[9]	5.00%

[9] Resubmitted with required information and subsequently approved.

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., 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 proceedings include the following.

a. COMMISSION APPROVES DISPOSAL OF YOUNG BROTHERS BARGE.

In December 2002, the Commission approved Young Brothers' request to dispose of its PT&S 286-1 barge, via sale to an interested buyer. In 2002, the barge ran aground causing substantial damage to its hull and was declared a constructive total loss. Young Brothers plans to replace the PT&S 286-1 barge in 2004.

b. COMMISSION APPROVES FINANCING FOR NEW HONE HEKE VESSEL.

In May 2003, the Commission approved Hone Heke's proposal to finance the construction of its new vessel, M/V Expeditions 4. The vessel will be financed through its capital construction fund created in 1992 and secured by a preferred ship mortgage. The total estimated construction cost of the vessel is $1,725,000. With the new and larger vessel, Hone Heke will be able to meet the anticipated increased demand for service between the islands of Maui and Lanai.

G. DOCKET PROCEEDINGS.

At the beginning of the Fiscal Year, 304 pending dockets were carried over from prior years, and 439 new dockets were opened during the Fiscal Year. Thus, during the Fiscal Year, a total of 743 dockets were before the Commission for review and consideration. Of the 743 dockets, 394 or approximately 53 per cent of the dockets were completed by the end of the Fiscal Year (June 30, 2003).

At the end of the Fiscal Year, 349 dockets were pending, including 162 dockets carried over from years prior to the Fiscal Year and 187 dockets that were opened during the Fiscal Year.

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

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2000-01, 2001-02, and 2002-03

	Fiscal Year (July 1 - June 30)		
Dockets Pending on July 1	**2000-01**	**2001-02**	**2002-03**
Utilities			
Electric	49	39	39
Gas	2	4	4
Telecommunications	60	59	75
Private Water/Sewer	11	8	7
Subtotal	122	110	125
Transportation			
Motor Carriers	162	183	178
Water Carriers	1	1	1
Subtotal	163	184	179
Total	285	294	304
New Dockets Opened in Fiscal Year	**2000-01**	**2001-02**	**2002-03**
Utilities			
Electric	29	26	32
Gas	3	3	1
Telecommunications	117	144	115
Private Water/Sewer	6	6	11
Subtotal	155	179	159
Transportation			
Motor Carriers	305	238	276
Water Carriers	1	3	4
Subtotal	306	241	280
Total	461	420	439

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2000-01, 2001-02, and 2002-03

Dockets Completed in FY	**2000-01**	**2001-02**	**2002-03**
Utilities			
Electric	39	26	29
Gas	1	3	3
Telecommunications	118	128	99
Private Water/Sewer	9	7	3
Subtotal	167	164	134
Transportation			
Motor Carriers	284	243	257
Water Carriers	1	3	3
Subtotal	285	246	260
Total	452	410	394
Dockets Pending on June 30	**2000-01**	**2001-02**	**2002-03**
Utilities			
Electric	39	39	42
Gas	4	4	2
Telecommunications	59	75	91
Private Water/Sewer	8	7	15
Subtotal	110	125	150
Transportation			
Motor Carriers	183	178	197
Water Carriers	1	1	2
Subtotal	184	179	199
Total	294	304	349

V. RULE-MAKING PROCEEDINGS.

The Commission did not undertake any rule-making proceedings during the Fiscal Year. However, the Commission intends to re-start its efforts to convert its General Orders into HAR format, as follows:

Draft HAR Chapter 6-70, Standards for Electric Utility Service.

Purpose: (1) revise, update, and convert General Order No. 7, Standards for Electric Utility Service in the State of Hawaii, into HAR format; (2) revise and transfer the applicable provisions of HAR chapter 6-60, Standards for Electric and Gas Utility Services in the State of Hawaii, to the proposed HAR chapter 6-70; and (3) repeal General Order No. 7 and HAR chapter 6-60.

Draft HAR Chapter 6-72, Standards for Gas Service, Calorimetry, Holders & Vessels.

Purpose: (1) revise, update, and convert General Order No. 9, Standards for Gas Service, Calorimetry, Holders & Vessels in the State of Hawaii, into HAR format; (2) revise and transfer the applicable provisions of HAR chapter 6-60, Standards for Electric and Gas Utility Services in the State of Hawaii, to the proposed HAR chapter 6-72; and (3) repeal General Order No. 9 and HAR chapter 6-60.

Draft HAR Chapter 6-73, Installation, Operation, and Maintenance of Overhead and Underground Electrical Supply and Communications Lines.

Purpose: (1) repeal of General Orders No. 6, Rules for Overhead Electric Line Construction in the State of Hawaii, and No. 10, Rules for Construction of Underground Electric and Communications Systems; and (2) the adoption of HAR chapter 6-73 in place of General Orders No. 6 and No. 10.

By way of HAR chapter 6-73, the Commission proposes to adopt by reference the National Electrical Safety Code, 1997 edition (Code), subject: (1) the incorporation of certain modifications to the Code proposed by the Commission, as set forth in § 6-73-20; and (2) the adoption of certain provisions of particular applicability, namely, loadings for electrical transmission lines.

While the Commission previously held public hearings on all three draft HARs, the Commission will review the feasibility of proceeding with public hearings anew on one or more proposed draft HARs.

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

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

1. WRITTEN INFORMAL AND VERBAL COMPLAINTS.

As shown in the table below, the Commission received a total of 688 written informal and verbal complaints in calendar year 2002 (complaints data compiled for each calendar year period January 1 to December 31) against regulated and unregulated utility and transportation companies. Complaints on Oahu amounted to 315 out of 688 complaints statewide, or 46 per cent of the total complaints.

Total Informal and
Verbal Complaints
Calendar Year 2002

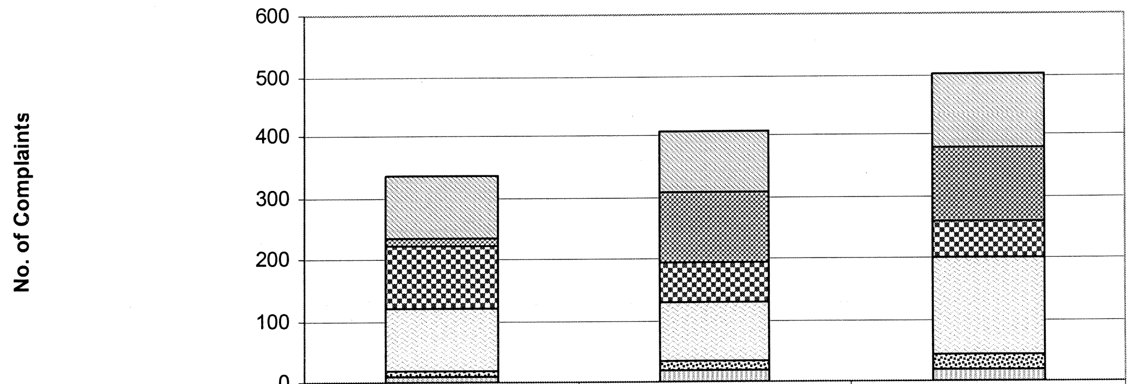
Utilities	
Telecommunications:	
Wireline (telephone)	123
Cellular and Paging	119
Other Telecom Providers	60
Total Telecom	302
Electricity	157
Gas	22
Water/Sewer	20
Transportation Carriers	
Water Carrier	12
Motor Carrier	175
Total Complaints	688

For all islands, the Commission received 302 written informal and verbal complaints involving telecommunications providers. The majority of telecommunications complaints (123) related to Verizon Hawaii. These complaints mainly involved service problems (e.g., availability and interruptions/repairs). The cellular and paging companies received 119 complaints, mostly relating to billing problems (billing errors and service contracts). Most of the 60 complaints filed against other telecommunications providers, including interstate and unregulated communications equipment and service companies, were related to billing problems and long distance carriers.

The electric utilities received 157 complaints, mostly relating to tariff matters (service termination and restoration) and service problems (interruptions and insurance claims). The complaints against gas utilities (22) were mostly relating to unregulated gas companies. The complaints relating to water and sewer facilities (20) were primarily over service problems. The complaints against water carriers (12) involved primarily service problems (scheduling, and damages and claims processing) with property water carriers. Most of the 175 complaints against motor carriers were related to tariffs and operating without CPCNs. The tables and graphs below summarize the complaints received by the Commission over the past three calendar years (January to December).

Figures 2 to 7 illustrate complaint trends over the last three fiscal years for each of the regulated utility industries, statewide, and island-by-island.

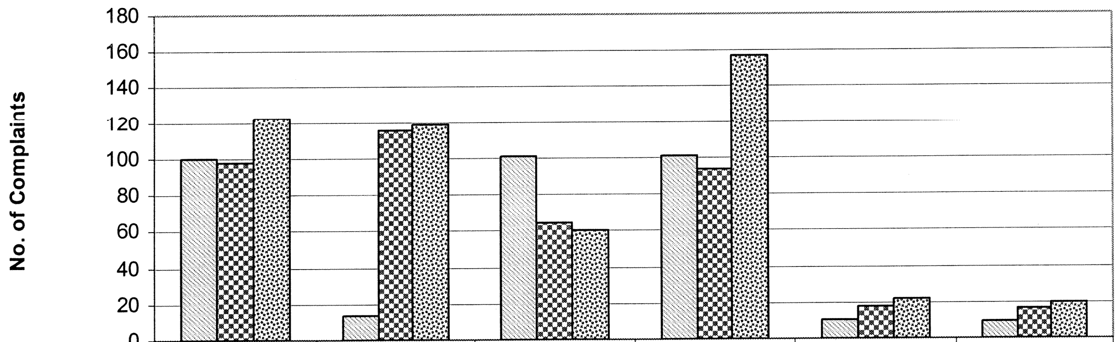
Figure 2
Informal and Verbal Complaints
Total All Utility Companies by Calendar Years 2000-2002



	CY 2000	CY 2001	CY 2002
Telephone	100	98	123
Cellular and Paging	14	115	119
Other Telecom Providers	101	64	60
Electricity	101	94	157
Gas	10	18	22
Water/Sewer	9	17	20
Total Complaints	335	406	501

Calendar Year (CY)

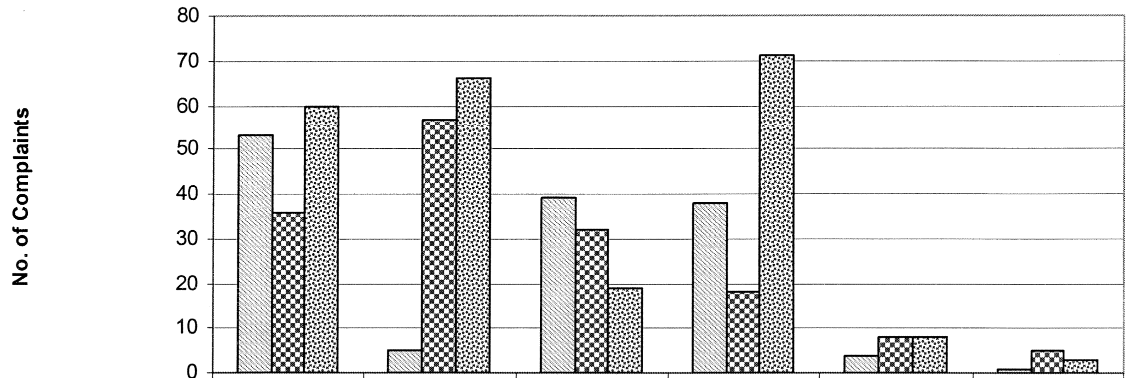
Figure 3
Informal and Verbal Complaints
Statewide - All Utility Companies - Calendar Years 2000-2002



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sew er
CY 2000	100	14	101	101	10	9
CY 2001	98	115	64	94	18	17
CY 2002	123	119	60	157	22	20

Type of Utility

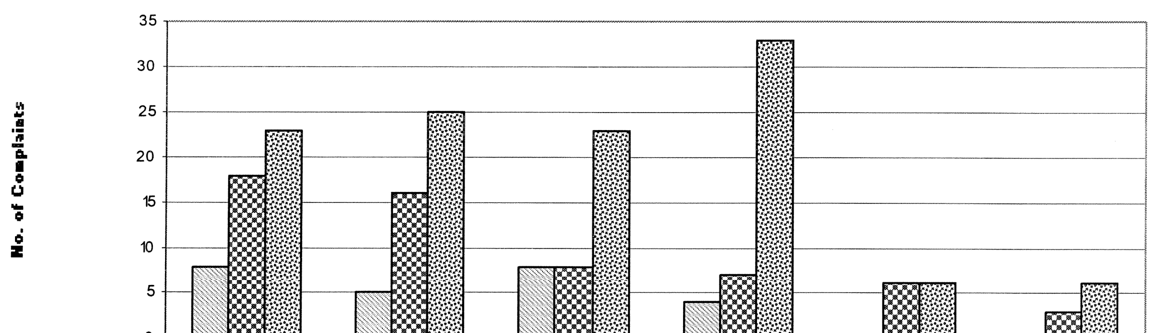
Figure 4
Informal and Verbal Complaints
Oahu Utility Companies - Calendar Years 2000-2002



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
CY 2000 Oahu	53	5	39	38	4	1
CY 2001 Oahu	36	57	32	18	8	5
CY 2002 Oahu	60	66	19	71	8	3

Type of Utility

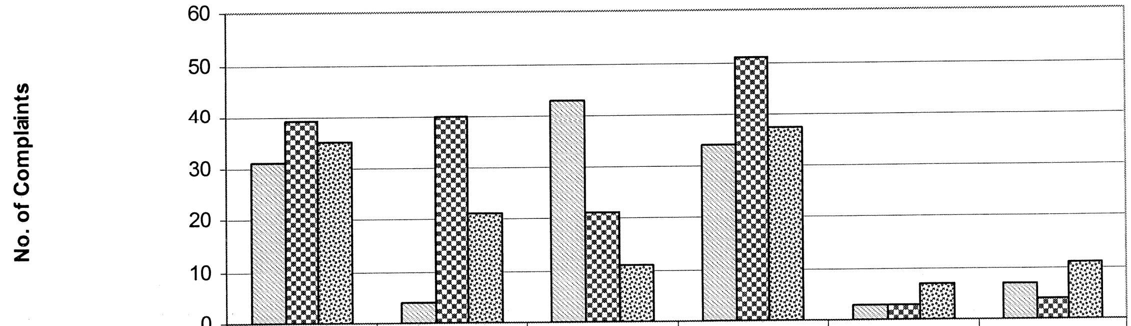
Figure 5
Informal and Verbal Complaint
Maui - Utility Companies - Calendar Years 2000-2002



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
CY 2000 Maui	8	5	8	4	0	0
CY 2001 Maui	18	16	8	7	6	3
CY 2002 Maui	23	25	23	33	6	6

Type of Utility

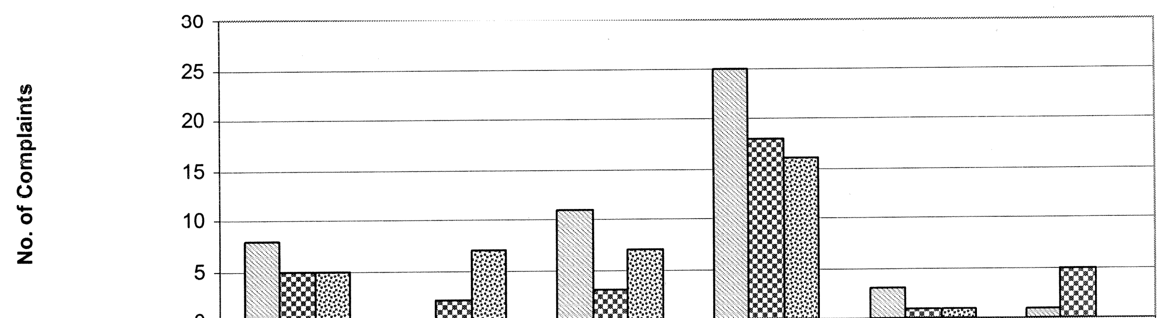
Figure 6
Informal and Verbal Complaints
Hawaii Utility Companies - Calendar Years 2000-2002,



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
CY 2000 Hawaii	31	4	43	34	3	7
CY 2001 Hawaii	39	40	21	51	3	4
CY 2002 Hawaii	35	21	11	37	7	11

Type of Utility

Figure 7
Informal and Verbal Complaints
Kauai -Utility Companies - Calendar Years 2000-2002

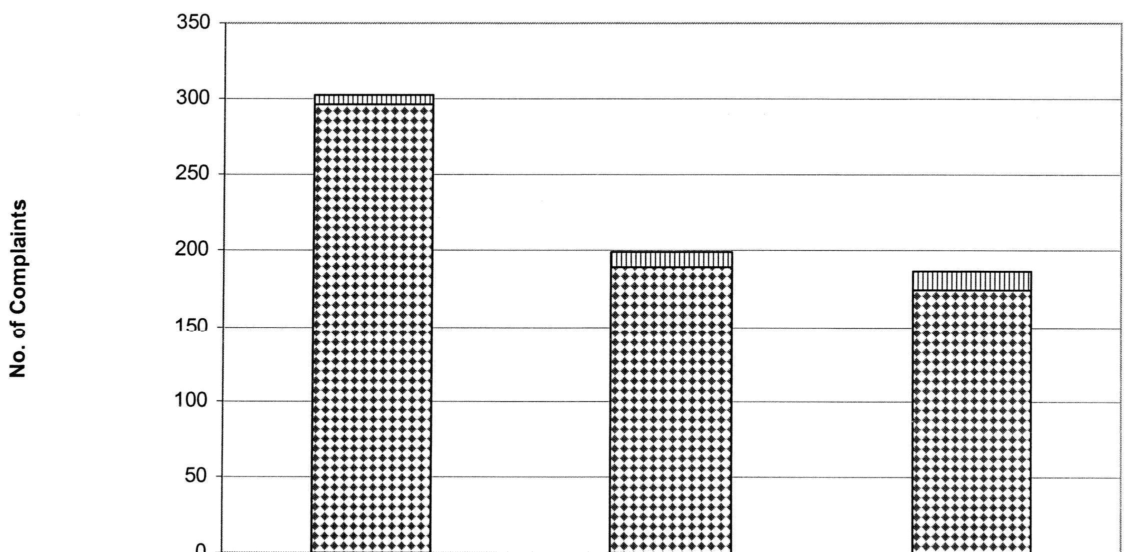


	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
CY 2000 Kauai	8	0	11	25	3	1
CY 2001 Kauai	5	2	3	18	1	5
CY 2002 Kauai	5	7	7	16	1	0

Type of Utility

Figures 8 to 11 illustrate complaint trends over the last three fiscal years for regulated motor carriers and water carriers, statewide and island-by-island.

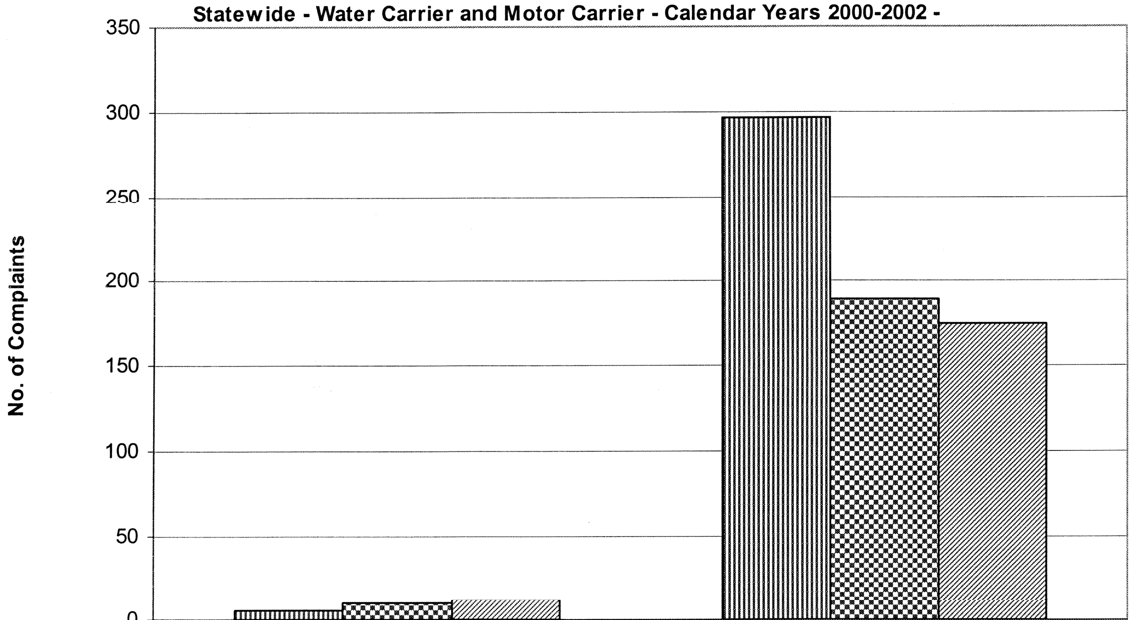
Figure 8
Informal and Verbal Complaints
Statewide All Transportation Carriers - Calendar Years 2000-2002



	CY 2000	CY 2001	CY 2002
Water Carrier	6	10	12
Motor Carrier	297	189	175
Total Complaints	303	199	187

Calendar Year (CY)

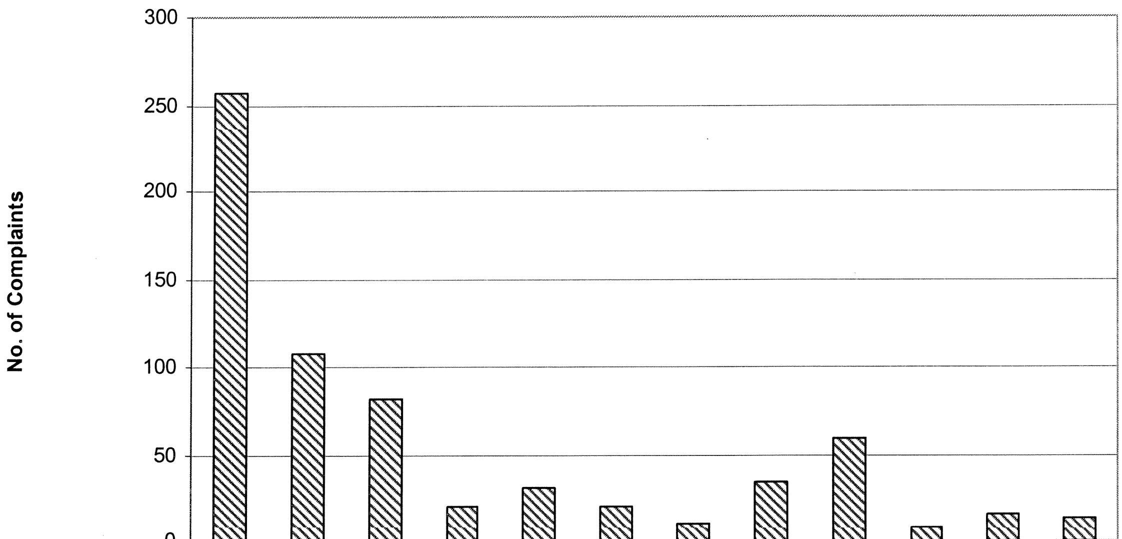
Figure 9
Informal and Verbal Complaints
Statewide - Water Carrier and Motor Carrier - Calendar Years 2000-2002 -



	Water Carrier	Motor Carrier
CY 2000	6	297
CY 2001	10	189
CY 2002	12	175

Transportation Carriers

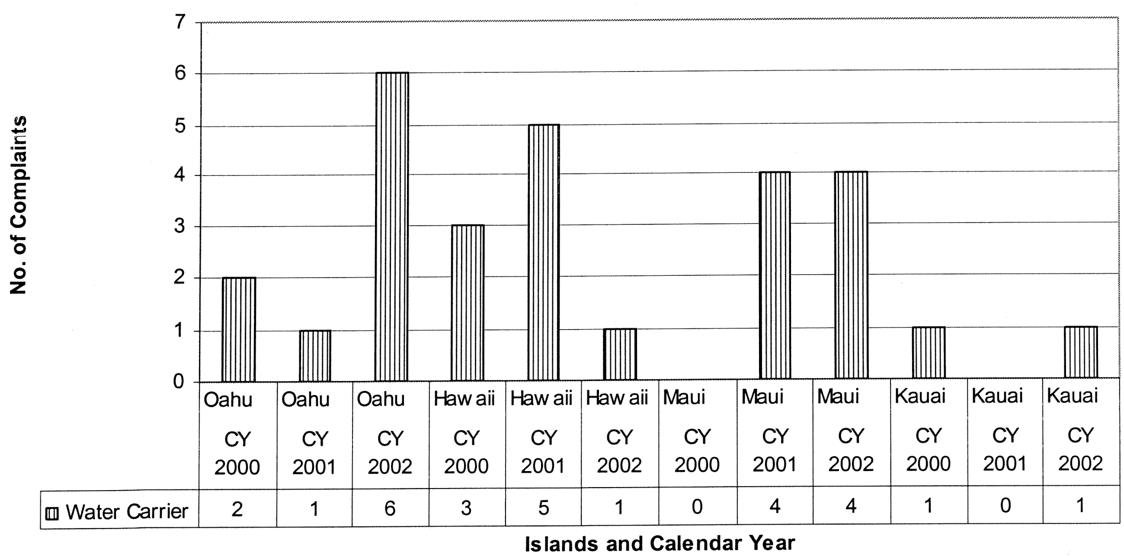
Figure 10
Informal and Verbal Complaints
Motor Carrier - By Islands - Calendar Years 2000-2002



	Oahu CY 2000	Oahu CY 2001	Oahu CY 2002	Hawaii CY 2000	Hawaii CY 2001	Hawaii CY 2002	Maui CY 2000	Maui CY 2001	Maui CY 2002	Kauai CY 2000	Kauai CY 2001	Kauai CY 2002
Motor Carrier	257	108	82	20	31	20	11	34	59	9	16	14

Islands and Calendar Year

Figure 11
Informal and Verbal Complaints
Water Carrier - By Islands - Calendar Years 2000-2002



2. FORMAL COMPLAINTS.

Pacific LightNet, Complainant, vs. Verizon Hawaii, Respondent. In March 2003, Pacific LightNet filed a complaint, against Verizon Hawaii requesting the Commission to issue an order requiring Verizon Hawaii to make payment to Pacific LightNet using one of two methods of calculating the costs of Pacific LightNet's interconnection facilities. The complaint was pending at the end of the Fiscal Year.[10]

B. FINANCIAL REPORTING AND PAYMENT OF PUBLIC UTILITIES FEE.

The applicable law and administrative rules require regulated utilities and transportation carriers to annually submit financial reports and to pay certain public utility revenue fees.

During the Fiscal Year, the Commission issued 58 show cause orders to motor carriers and 29 orders to telecommunications providers who failed to submit financial reports and failed to pay required revenue fees. The Commission collected $72,737 in interest and penalties for the late payment of revenue fees. The Commission revoked the CPCNs of 26 motor carriers and certificates of authority of 20 telecommunications providers for failure to comply with financial reporting and/or payment requirements as mandated by law and/or rules.

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[10] During the next fiscal year (2003-04), the Commission heard oral arguments on Verizon Hawaii's motion to dismiss the complaint.

C. MOTOR CARRIER CITATIONS.

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

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. The most common type of motor carrier citations relates to the failure to maintain the required liability insurance and/or operating without a published tariff. For this Fiscal Year, civil penalties collected through motor carrier citations totaled $40,415. The Commission enforcement officers issued 197 motor carrier citations on the following islands: 130 on Oahu, 29 on Hawaii, 26 on Maui, 7 on Kauai, 4 on Molokai, and 1 on Lanai.

VII. FISCAL INFORMATION.

The Public Utilities Commission Special Fund ("Special Fund") is used to cover the operating expenses of the Commission and Consumer Advocate. The Special Fund's sources of income include public utility fees, motor carrier fees, penalties and interest, application and intervention filing fees, and duplication fees. For the Fiscal Year, the regulated utilities and transportation carriers paid $11,717,267 in public utility fees and $899,408 in motor carrier fees, respectively. The total revenues of the Commission for the Fiscal Year was $12,778,421.

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 $5,683,485 for personal services and other current expenses as shown in the table below. Allotments for the Commission's personal services expenses, including collective bargaining expenses, were $2,618,720 for 44 authorized permanent positions. The Commission was allotted $3,296,377 for other current expenses and $5,000 for equipment expenses. The Commission's other current expenses allotment included $2,453,275 that was transferred to the Consumer Advocate to cover its operating expenses.

	FY 2002-03 Appropriation	FY 2002-03 Allotment*
Personal Services	$2,382,108	$2,618,720
Other Current Expense	3,301,377	3,296,377
Equipment	-0-	5,000
Total	$5,683,485	$5,920,097

*Allotment for personal services includes collective bargaining amount ($236,612)

Pursuant to Section 269-33, HRS, any amount over $1,000,000 remaining in the Special Fund at the end of each fiscal year is transferred to the State's general fund. For the Fiscal Year, an excess balance of $7,159,031 from the Special Fund was transferred to the general fund. [11]

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[11] See the "Public Utilities Commission Special Fund Report, Fiscal Year 2002-03" for detailed information on the Commission's actual revenues and expenditures for the Fiscal Year, which the Commission submits to the Legislature pursuant to Section 269-33, HRS.

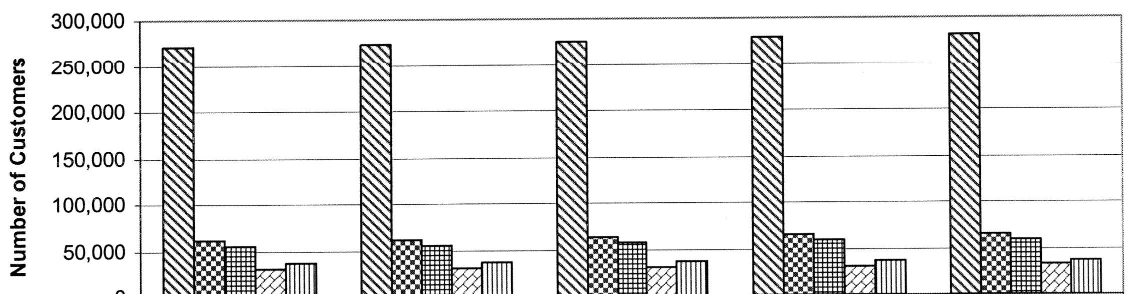
VIII. UTILITY COMPANY OPERATIONS, CAPITAL IMPROVEMENTS, AND RATES.

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, although there was a slight general increase in the number of electric and gas utility customers during the 1998 – 2002 time period, as shown in Figure 12.[12]

Figure 12
Number of Electric and Gas Utility Customers
1998 - 2002



	1998	1999	2000	2001	2002
HECO	272,366	274,017	276,447	279,534	281,922
HELCO	60,585	61,796	63,207	64,660	66,034
MECO	54,871	55,786	57,000	58,308	59,410
KIUC	29,800	30,248	30,715	30,969	31,768
Gasco	36,413	36,236	36,321	36,379	36,322

Annual Periods

As shown in Figure 13, Verizon Hawaii's customer base, as measured by the number of access lines that it serves, after peaking in 2000, has decreased over the past two years.[13] This

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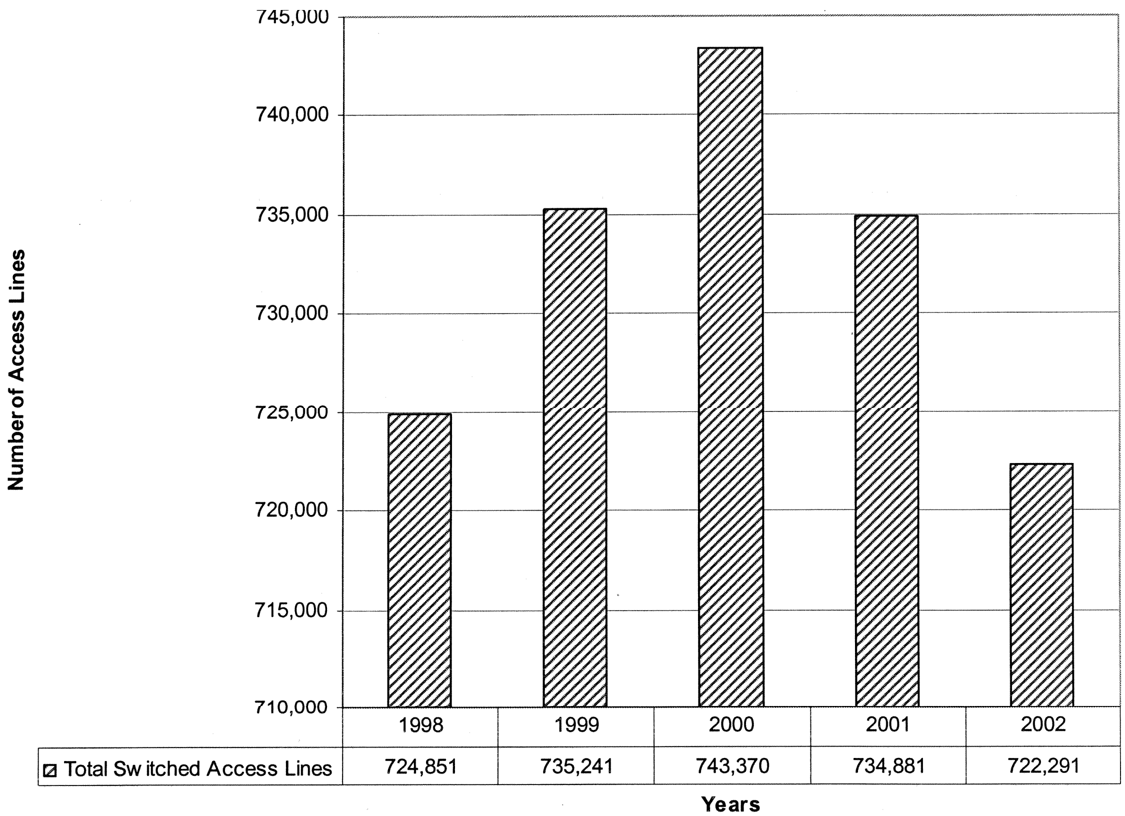
[12] Sources: HECO 2002 Service Reliability Report, MECO 2002 Service Reliability Report, HELCO 2002 Service Reliability Report, and KIUC 2002 Annual Report to the Public Utilities Commission ("PUC").

[13] Verizon Hawaii's ARMIS Operating Data Reports (FCC Report 43-08) for 1998 through 2002.

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).

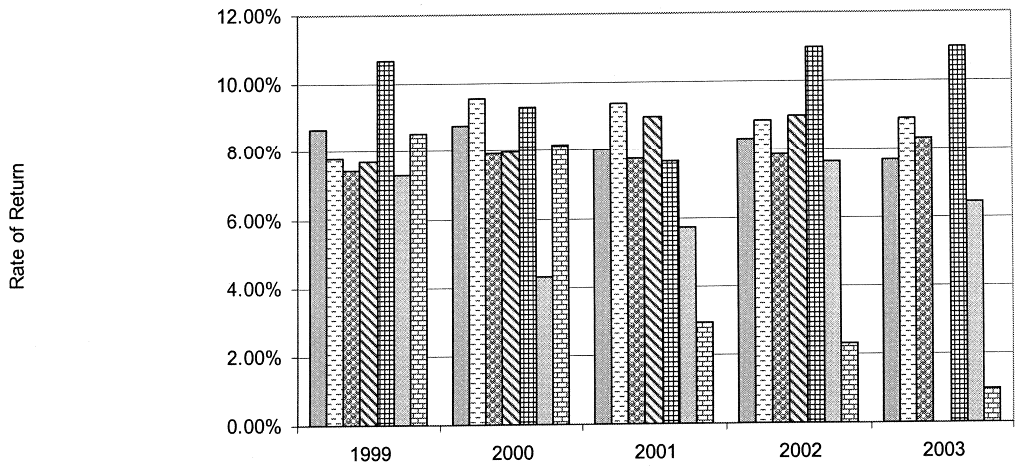
Figure 13
Verizon Hawaii Total Switched Access Lines
1998 - 2002



2. RATES OF RETURN EARNED BY UTILITY COMPANIES.

Each regulated utility is entitled to a fair opportunity to earn a fair rate of return. Figures 14 to 21 summarize the recent history and trends of rates of return earned by the various regulated utilities.

Figure 14
Utility Rate of Return Five Year Comparison



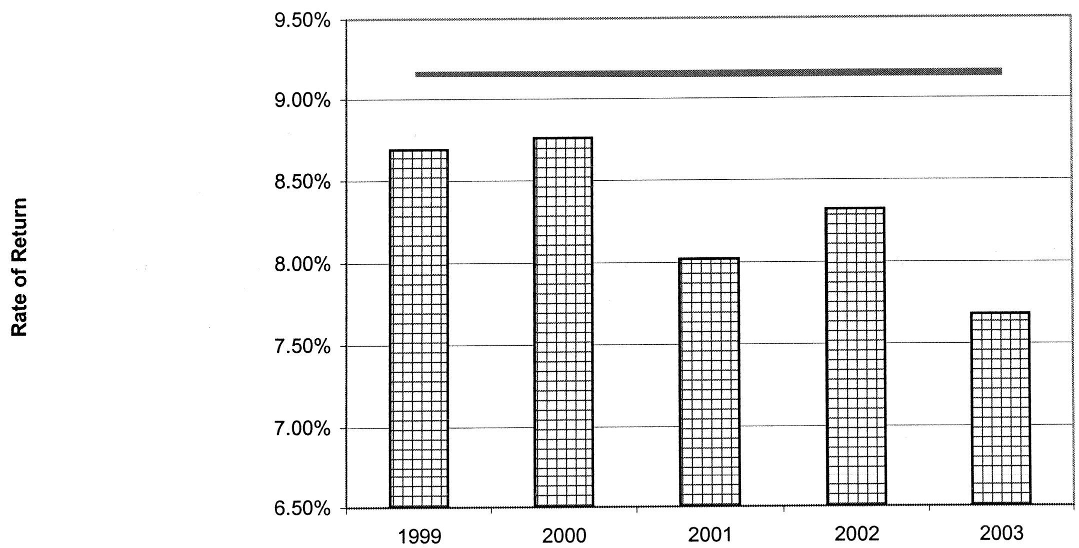
	June-99	June-00	June-01	June-02	June-03
HECO	8.69%	8.76%	8.02%	8.32%	7.68%
HELCO	7.80%	9.56%	9.39%	8.87%	8.89%
MECO	7.43%	7.91%	7.74%	7.82%	8.31%
KIUC/KE	7.69%	7.96%	9.01%	8.99%	n/a[1]
Young Brothers	10.66%	9.28%	7.66%	10.96%	11.00%
The Gas Company 3	7.30%	4.30%	5.70%	7.60%	6.40%
Verizon Haw/GTE Haw Tel	8.53%	8.18%	2.92%	2.29%	0.96%

Year

[1] Beginning November 2002, KIUC began reporting TIER (Times Interest Earned Ratio)

As shown in Figures 15 to 21, for the most part, the utilities have not been earning their authorized rates of return.

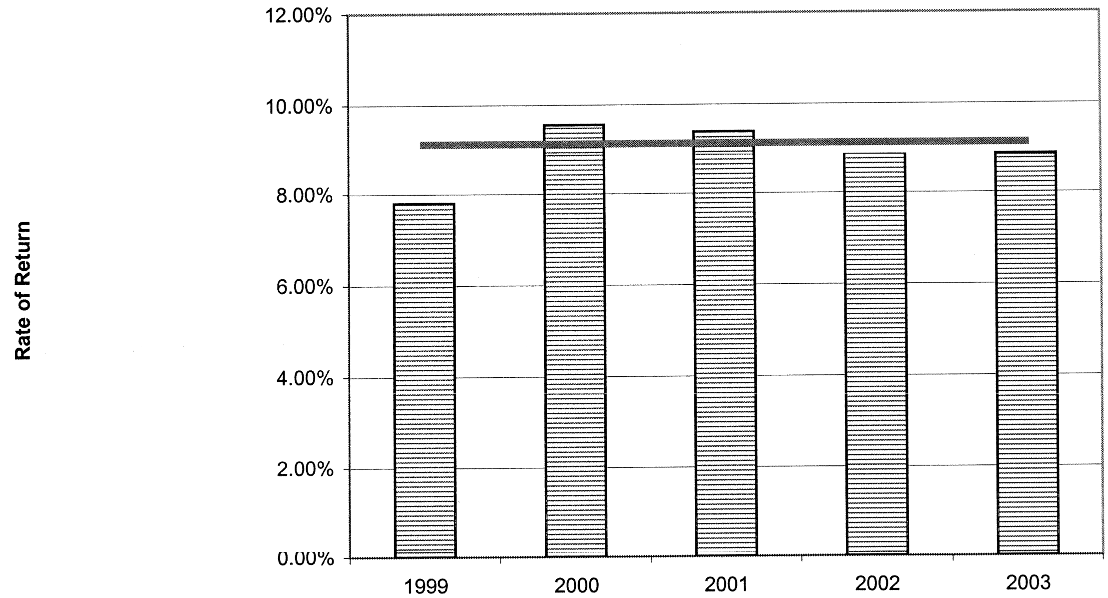
Figure 15
Five Year Rate of Return Comparison - HECO



	June-99	June-00	June-01	June-02	June-03
Rate of Return	8.69%	8.76%	8.02%	8.32%	7.68%
Authorized Rate of Return	9.16%	9.16%	9.16%	9.16%	9.16%

Year

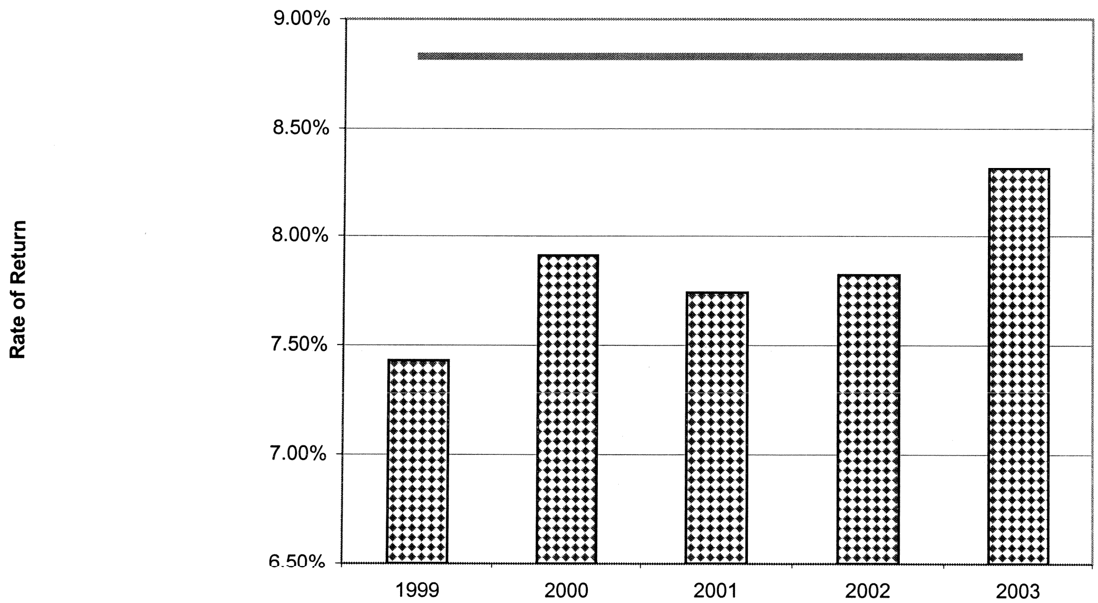
Figure 16
Five Year Rate of Return Comparison - HELCO



	June-99	June-00	June-01	June-02	June-03
Rate of Return	7.80%	9.56%	9.39%	8.87%	8.89%
Authorized Rate of Return	9.14%	9.14%	9.14%	9.14%	9.14%

Year

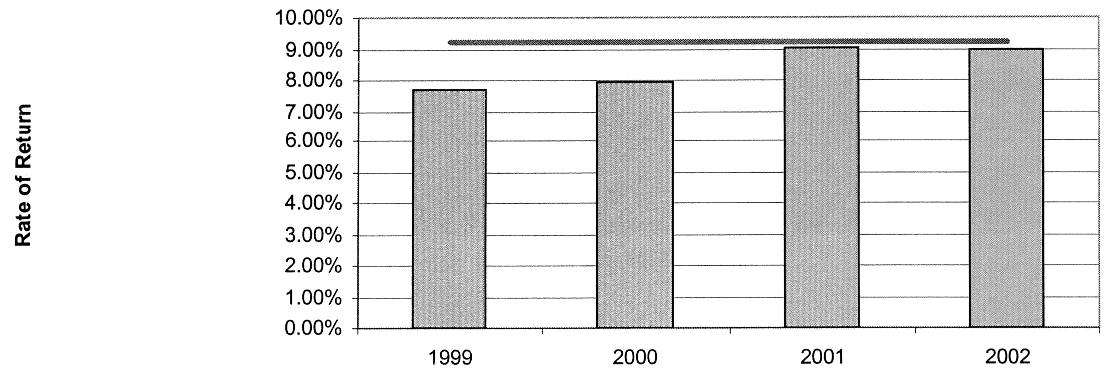
Figure 17
Five Year Rate of Return Comparison - MECO



	June-99	June-00	June-01	June-02	June-03
Rate of Return	7.43%	7.91%	7.74%	7.82%	8.31%
Authorized Rate of Return	8.83%	8.83%	8.83%	8.83%	8.83%

Year

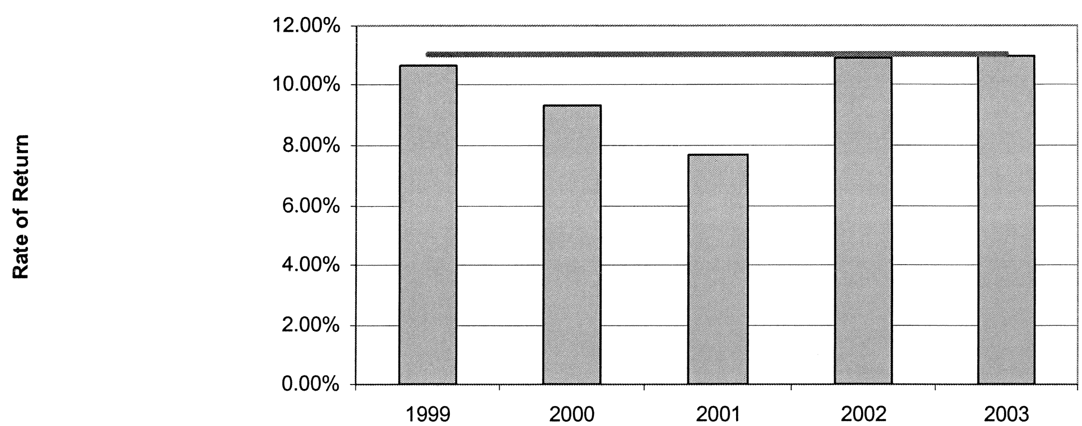
Figure 18
Five Year Rate of Return Comparison - Kauai Electric/ Kauai Island Utility Company



	June-99	June-00	June-01	June-02
Rate of Return	7.69%	7.96%	9.01%	8.99%
Authorized Rate of Return	9.23%	9.23%	9.23%	9.23%

Year

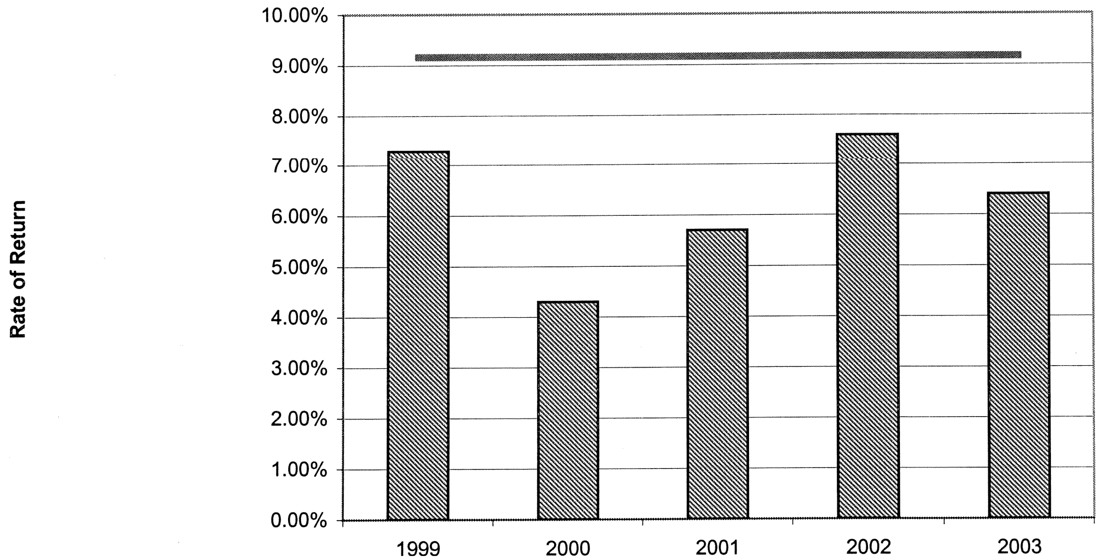
Figure 19
Five Year Rate of Return Comparison - Young Brothers



	June-99	June-00	June-01	June-02	June-03
Rate of Return	10.66%	9.28%	7.66%	10.96%	11.00%
Authorized Rate of Return	11.06%	11.06%	11.06%	11.06%	11.06%

Year

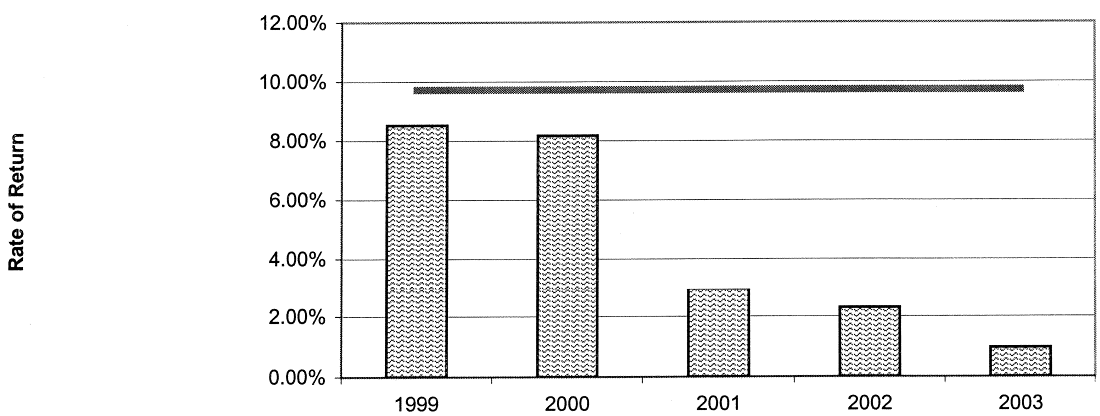
Figure 20
Five Year Rate of Return Comparison - The Gas Company



	June-99	June-00	June-01	June-02	June-03
Rate of Return	7.30%	4.30%	5.70%	7.60%	6.40%
Authorized Rate of Return	9.16%	9.16%	9.16%	9.16%	9.16%

Year

Figure 21
Five Year Rate of Return Comparison - Verizon Hawaii/GTE Hawaiian Tel



	June-99	June-00	June-01	June-02	June-03
Rate of Return	8.53%	8.18%	2.92%	2.29%	0.96%
Authorized Rate of Return	9.73%	9.73%	9.73%	9.73%	9.73%

Year

B. CAPITAL IMPROVEMENTS.

Electric, gas, and certain telecommunications regulated utilities are required by the Commission's administrative rules to obtain approval for all capital improvement project ("CIP") expenditures over $500,000. During the Fiscal Year, the Commission approved utility applications totaling more than $56 million in utility capital improvements.

1. ELECTRIC UTILITY CAPITAL IMPROVEMENT PROJECTS.

In the Fiscal Year, the Commission approved expenditures totaling over $54 million for electric utility capital improvements.

HECO was authorized to expend $41.6 million for its capital improvements. Expenditures include $26.9 million for the Waiau fuel pipeline project, $2.4 million for the installation of the Kahe 3 boiler control system, $2.4 million for the installation of the Kahe 4 boiler control system, $2.2 million for the Honolulu 9 HP/LP turbine blading project, $2.0 million for the Mokuone substation project, $1.3 million for the Camp Smith #2 substation project, $1.3 million for the purchase of a spare 138-46kV, 48/80 MVA transformer, $1.2 million for the Puuloa Road widening/improvements project, $1.0 million for the Waiau 5 generator stator rewind project, and $0.9 million for the installation of the West Loch substation/Makakilo transformer #2.

HELCO was authorized to expend $6.5 million for its capital improvements. Expenditures include $4.7 million for the Kukio 69kV underground conversion, $0.9 million for the SSPP Unit 639 – Olivera installation of an overhead distribution system at Milolii, South Kona, and $0.9 million for HELCO-owned interconnection facilities connecting HELCO's system to HRD's wind farm.

MECO was authorized to expend $3.4 million for the installation of an underground distribution system at the Wailuku Country Estates subdivision.

KIUC was authorized to expend $3.0 million for the construction and rebuild of the distribution line from the Kekaha switchyard to the Puuka Pele substation.

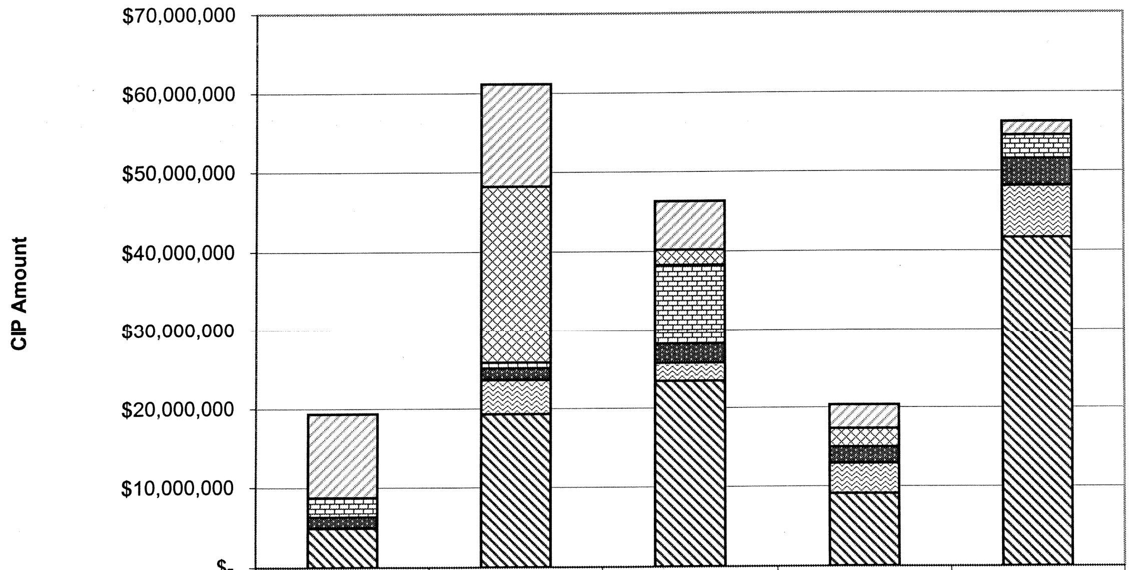
2. TELECOMMUNICATIONS CIPs.

During the Fiscal Year, Verizon Hawaii received approval to expend $0.6 million for the GTD-5 trunk addition in the Lihue central office, $0.6 million for the installation of fiber optic cabling between the Laupahoehoe and Paauilo central offices, and $0.5 million for the DSM-100 trunk addition in the Hilo central office.

3. CAPITAL IMPROVEMENT TRENDS.

During the past five years, the total dollar value of Commission-approved capital improvement projects (i.e., projects in excess of $500,000) peaked in the 1999-00 and 2002-03 fiscal years, as shown in Figures 22 and 23.

Figure 22
Five-Year Comparison of Utility CIP

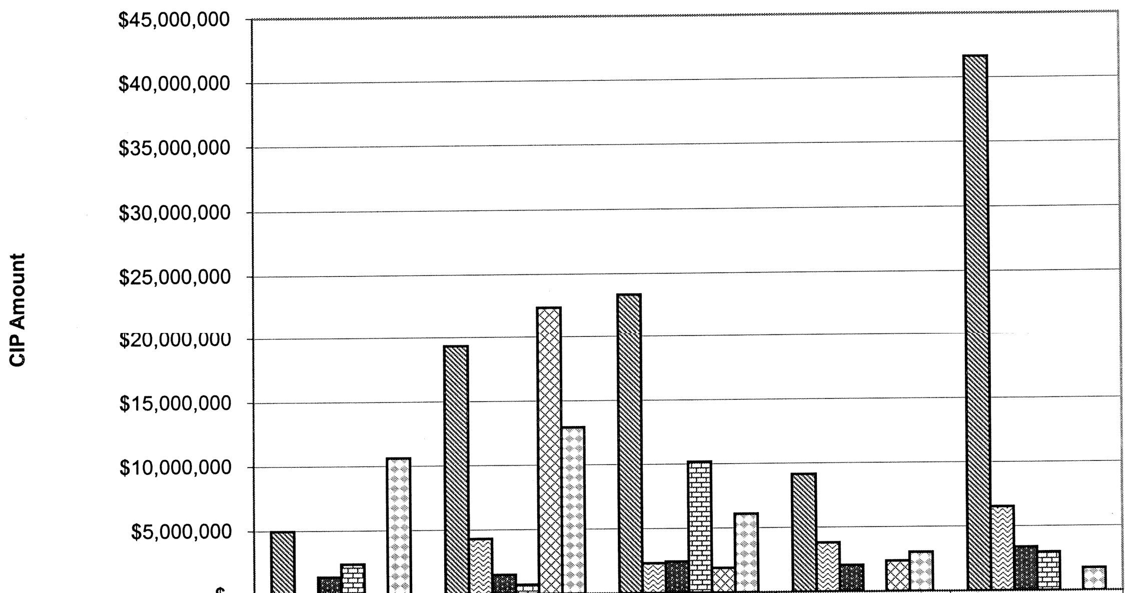


	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03
GTE/Verizon Hawaii	$10,611,381	$12,907,885	$6,089,171	$3,019,288	$1,734,200
Gasco/TGC	$-	$22,400,000	$1,914,842	$2,354,705	$-
KE/KIUC	$2,400,300	$723,600	$10,150,835	$-	$2,958,900
MECO	$1,405,600	$1,497,066	$2,435,540	$2,046,452	$3,379,707
HELCO	$-	$4,284,019	$2,311,179	$3,788,695	$6,502,973
HECO	$4,942,092	$19,313,575	$23,379,569	$9,109,866	$41,639,829
Total CIP	$19,359,373	$61,126,145	$46,281,136	$20,319,006	$56,215,609

Fiscal Year ("FY")

The peak in the 1999-00 fiscal year was due primarily to a $12.4 million approved expenditure by Gasco for the purchase of the synthetic natural gas plant located at Campbell Industrial Park, while the peak in this Fiscal Year was due in a large part to HECO's $26.9 million approved expenditure for the Waiau fuel pipeline project.

Figure 23
Five-Year Comparison of Utility CIP



	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03
HECO	$4,942,092	$19,313,575	$23,379,569	$9,109,866	$41,639,829
HELCO	$-	$4,284,019	$2,311,179	$3,788,695	$6,502,973
MECO	$1,405,600	$1,497,066	$2,435,540	$2,046,452	$3,379,707
KE/KIUC	$2,400,300	$723,600	$10,150,835	$-	$2,958,900
Gasco/TGC	$-	$22,400,000	$1,914,842	$2,354,705	$-
GTE/Verizon Hawaii	$10,611,381	$12,907,885	$6,089,171	$3,019,288	$1,734,200

FY

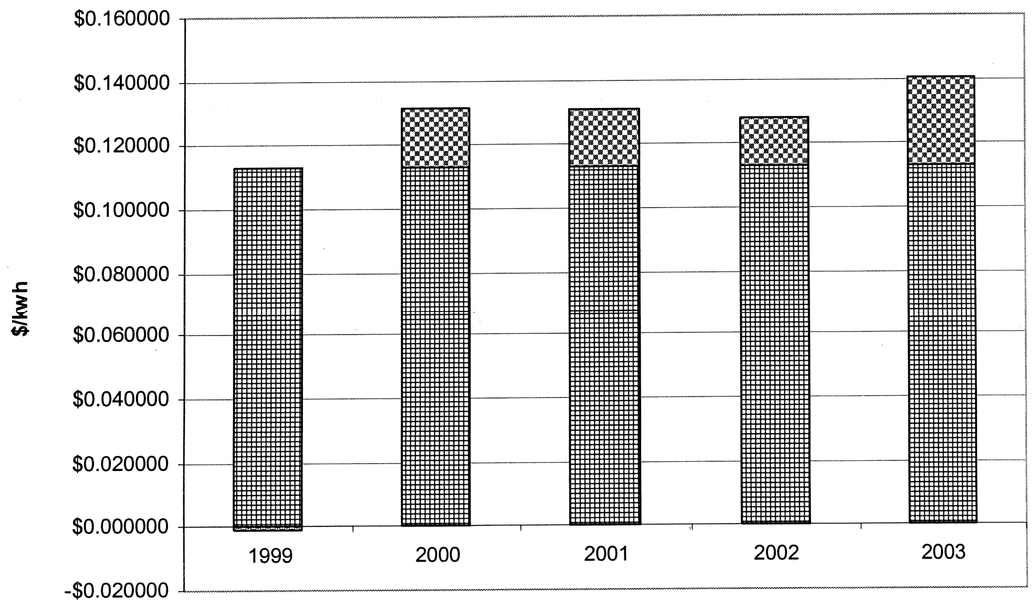
C. RATES OF MAJOR UTILITY COMPANIES.

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 rates paid by utility customers.

1. ELECTRICITY RATES.

In Figures 24 to 29, the electricity rates consist of the base energy rate plus the energy rate adjustment clause ("ERAC").[14] The total of the base energy rate and the ERAC is referred to herein as the "Effective Energy Rate."

Figure 24
HECO Residential Base Energy Rates and ERAC
1999 - 2003

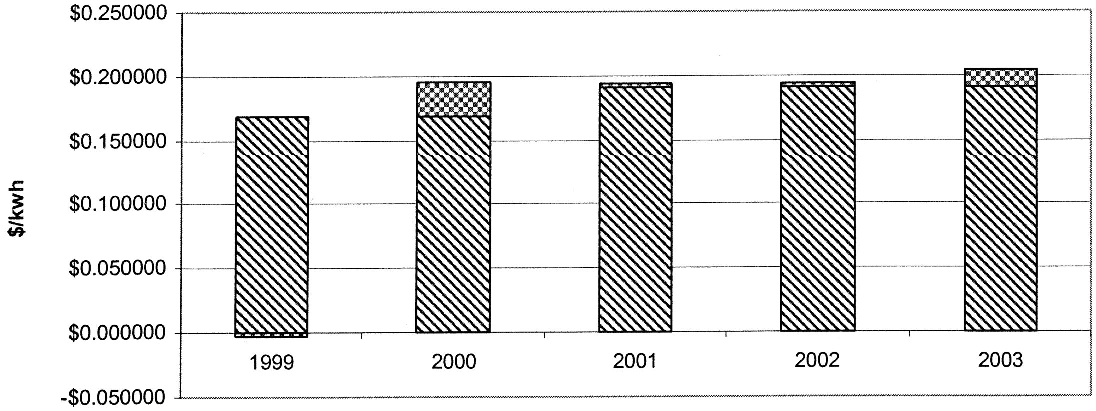


	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03
ERAC	-$0.001200	$0.018460	$0.017880	$0.015060	$0.027340
Base Rates	$0.112954	$0.112954	$0.112954	$0.112954	$0.112954
Total	$0.111754	$0.131414	$0.130834	$0.128014	$0.140294

Year

[14] 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 increases or decreases or both in costs incurred by an electric or gas utility for fuel or purchased energy due to changes in the unit cost of fuel and purchased energy. See Chapter 6-60, HAR.

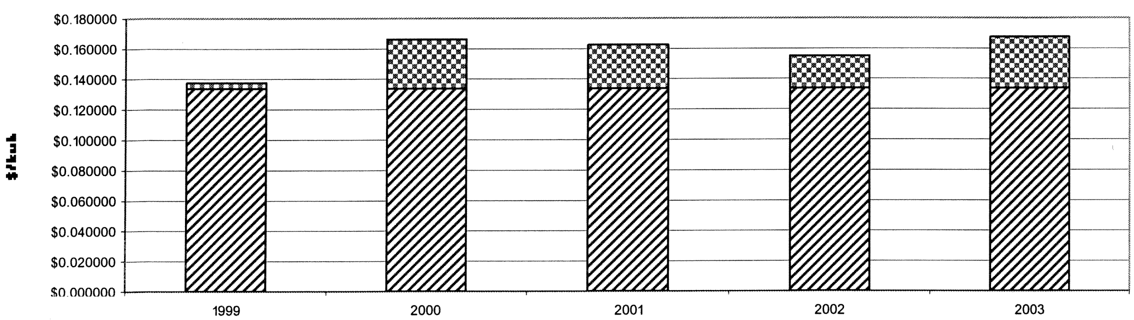
Figure 25
HELCO Residential Base Energy Rates and ERAC
1999 - 2003



	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03
ERAC	-$0.003080	$0.025550	$0.002720	$0.002450	$0.012460
Base Rates	$0.169357	$0.169357	$0.191370	$0.191370	$0.191370
Total	$0.166277	$0.194907	$0.194090	$0.193820	$0.203830

Year

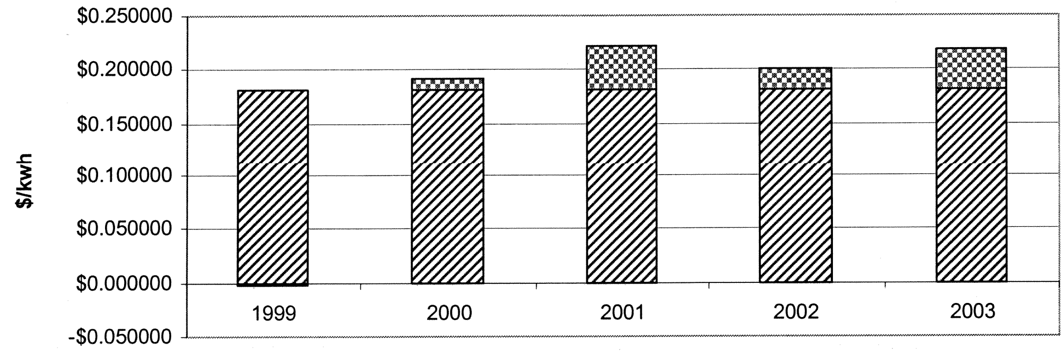
Figure 26
MECO - Maui Division Residential Base Energy Rates and ERAC
1999 - 2003



	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03
ERAC	$0.003690	$0.031930	$0.028870	$0.020500	$0.033090
Base Rates	$0.134231	$0.134231	$0.134231	$0.134231	$0.134231
Total	$0.137921	$0.166161	$0.163101	$0.154731	$0.167321

Year

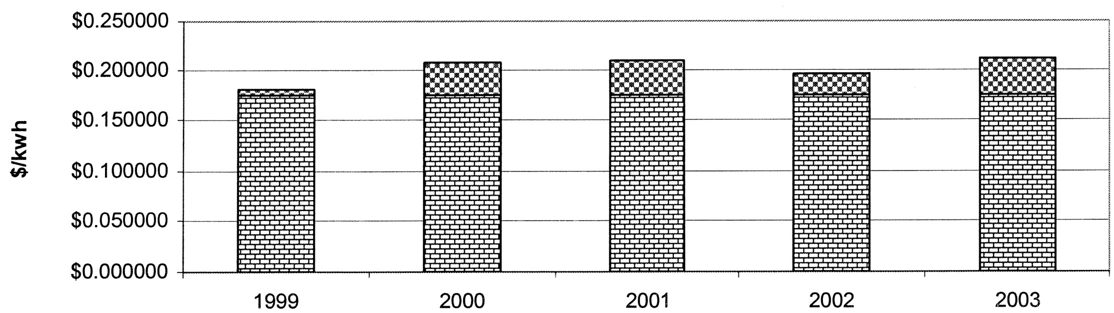
Figure 27
MECO - Lanai Division Residential Base Energy Rates and ERAC
1999 - 2003



	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03
ERAC	-$0.002630	$0.010770	$0.041320	$0.019390	$0.038190
Base Rates	$0.180648	$0.180648	$0.180648	$0.180648	$0.180648
Total	$0.178018	$0.191418	$0.221968	$0.200038	$0.218838

Year

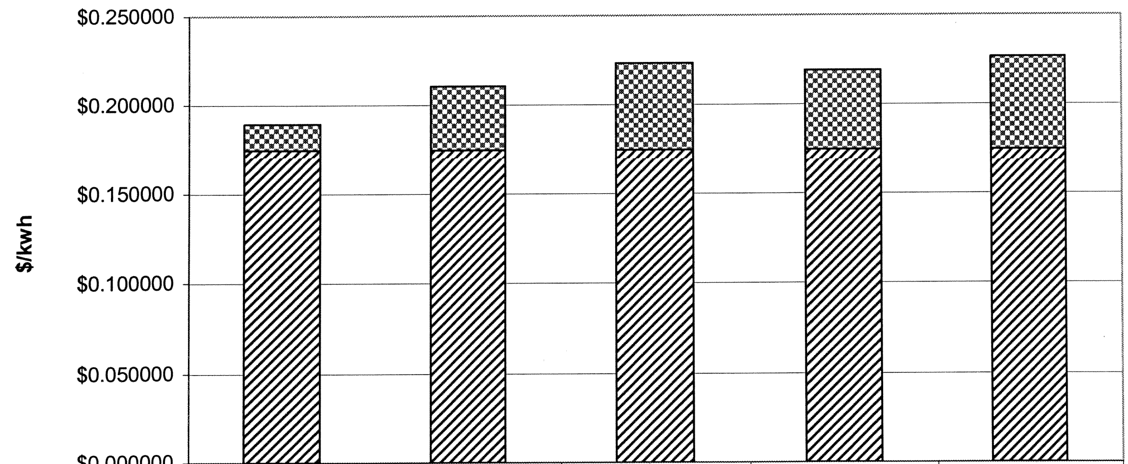
Figure 28
MECO - Molokai Division Residential Base Energy Rates and ERAC
1999 - 2003



	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03
ERAC	$0.005900	$0.031530	$0.034390	$0.020410	$0.036830
Base Rates	$0.174383	$0.174383	$0.174383	$0.174383	$0.174383
Total	$0.180283	$0.205913	$0.208773	$0.194793	$0.211213

Year

Figure 29
KIUC/KE Residential Base Energy Rates and ERAC
1999 - 2003

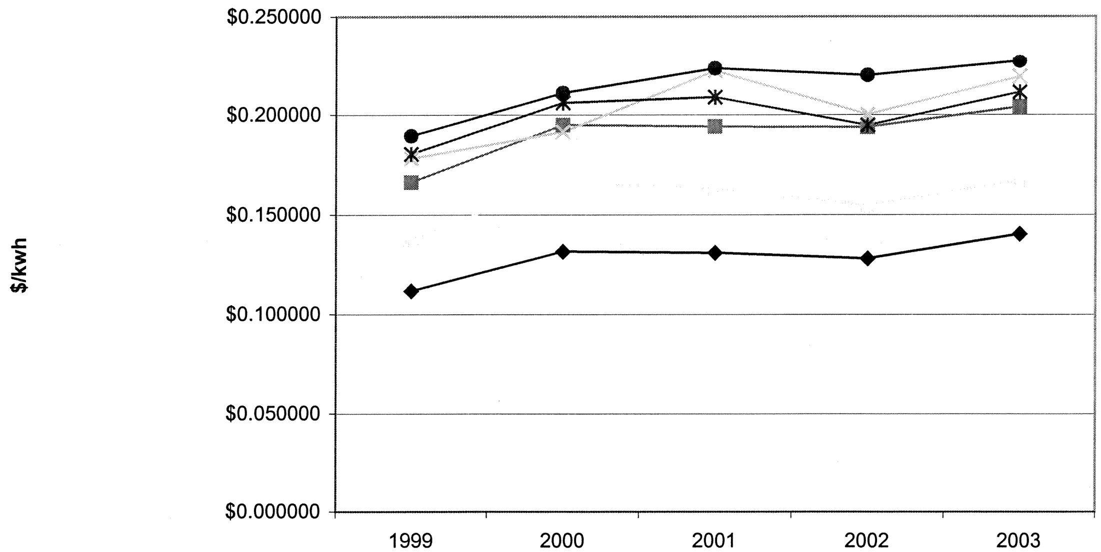


	1	2	3	4	5
ERAC	$0.014480	$0.035950	$0.048290	$0.044720	$0.051900
Base Rates	$0.174890	$0.174890	$0.174890	$0.174890	$0.174890
Total	$0.189370	$0.210840	$0.223180	$0.219610	$0.226790

Year

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

Figure 30
Five Year Comparison of Effective Residential Rates

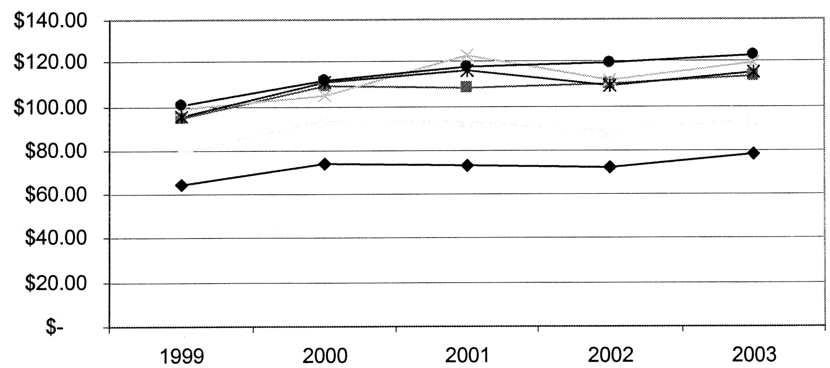


	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03
HECO	$0.111754	$0.131414	$0.130834	$0.128014	$0.140294
HELCO	$0.166277	$0.194907	$0.194090	$0.193820	$0.203830
MECO - Maui Division	$0.137921	$0.166161	$0.163101	$0.154731	$0.167321
MECO - Lanai Division	$0.178018	$0.191418	$0.221968	$0.200038	$0.218838
MECO - Molokai Division	$0.180283	$0.205913	$0.208773	$0.194793	$0.211213
KIUC/KE	$0.189370	$0.210840	$0.223180	$0.219610	$0.226790

Year

Figure 31 compares monthly residential ***bills*** across the State over the past five years, assuming 500kwh is used by the customer during the month.[15]

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



	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03
HECO	$64.59	$73.75	$73.39	$72.02	$78.29
HELCO	$94.27	$109.40	$108.29	$109.90	$113.28
MECO - Maui Division	$79.18	$93.22	$93.04	$88.87	$93.50
MECO - Lanai Division	$98.39	$105.10	$122.66	$111.85	$119.33
MECO - Molokai Division	$95.09	$110.56	$115.67	$108.83	$115.50
KIUC/KE	$100.58	$111.64	$118.01	$119.53	$123.12

Year

[15] The Residential 500 kwh calculation includes the Effective Energy Rate and other charges and adjustments that the utility is authorized to assess (e.g., customer charge, IRP/DSM surcharges, etc. – it varies by company).

2. TELECOMMUNICATION RATES.

Verizon Hawaii's basic rates have remained unchanged over the past several years.[16] The following table shows amounts by islands that customers have been paying since 1997 for residential service.

Island	Residential Service (1997 – Present)[17]
Oahu	$16.02
Hawaii	$14.57
Maui	$13.90
Kauai	$13.90
Molokai	$12.07
Lanai	$11.01

IX. UTILITY COMPANY PERFORMANCE.

A. ELECTRIC UTILITIES EFFICIENCY AND SERVICE QUALITY.

1. HECO 2002 SERVICE QUALITY RESULTS.

The following HECO electric utility service quality discussion is based on or excerpted directly from the HECO Annual Service Reliability Report 2002 submitted to the Commission by HECO. The report covers the 2002 calendar year ("2002"). A complete copy is available for review at the Commission's office and will be made available on the Commission's website.

The average number of electric customers increased from 279,534 in 2001 to 281,922 in 2002 (a 0.9% increase). A new peak demand was set on the evening of October 3, 2002 for the system at 1,250 MW, the highest system peak demand since the evening of September 26, 2002, at 1,237 MW.

Indices measure reliability in terms of the overall availability of electrical service ("ASA") (higher is better), the frequency or number of times HECO's customers experience an outage during the year ("SAIF") (lower is better), the average length of time an interrupted customer is out of power ("CAID") (lower is better), and the average length of time HECO's customers are out

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[16] In fact, the current rates have been in effect since 1995. However, since 1997, with the approval of the Commission, Verizon Hawaii has assessed an 11.23 percent surcharge on most intrastate services, including basic services.

[17] The figures listed include an approved 11.23 percent intrastate surcharge. Charges, other surcharges and taxes not reflected in the amounts include touch tone service charge, PUC service fee, telecommunications relay services surcharge, and statewide enhanced 911 service surcharge, and federal taxes and surcharges, such as interstate subscriber line charge, federal excise tax, service provider number portability fee, and federal universal service fee.

of power during the year ("SAID") (lower is better). SAID is an indication of overall system reliability because it is the product of SAIF and CAID and incorporates the impact of frequency and duration of outages on HECO's total customer base (in this case 281,922 customers).

To determine the relative level of reliability, the statistics for four prior calendar years, 1998 through 2001, are used for comparison.

The reliability indices are calculated using the data from all sustained 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 ("HECO Reliability Indices Report"). 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.

a. HECO NORMALIZED RESULTS.

The 2002 service reliability results are normalized[18] for the December 19, 2002, load shedding incident during which time the AES cogenerator prematurely disconnected from the grid because of a boiler feed pump failure. AES was exporting 180 MW and the system frequency prior to the trip was 60 hertz.

On a normalized basis, the annual service reliability for 2002 was the best in the past 25 years in terms of system reliability. The reliability results for 2002 and four prior years are shown in the table of Annual Service Reliability Indices.

Electricity Annual Service Reliability Indices

	1998	1999	2000	2001	2002*	2002
Number of Customers	272,366	274,017	276,447	279,534	281,922	281,922
Customer Interruptions	349,546	338,716	349,683	492,309	325,332	407,968
Customer-Hours Interrupted	387,413	340,530	408,909	553,544	359,810	461,354
ASA (Percent)	99.984	99.986	99.983	99.977	99.985	99.981
SAIF (Occurrences)	1.283	1.236	1.265	1.761	1.154	1.447
CAID (Minutes)	66.50	60.32	70.16	67.46	66.36	67.85
SAID (Minutes)	85.34	74.56	88.75	118.81	76.58	98.19

*Note: 2002 Data normalized to exclude 12/19/02 AES Load Shedding outage

[18] Service reliability data may be "normalized" under the guidelines published in the December 1990 report, "Methodology for Determining Reliability Indices."

Figure 32
HECO Average Service Availability (ASA)

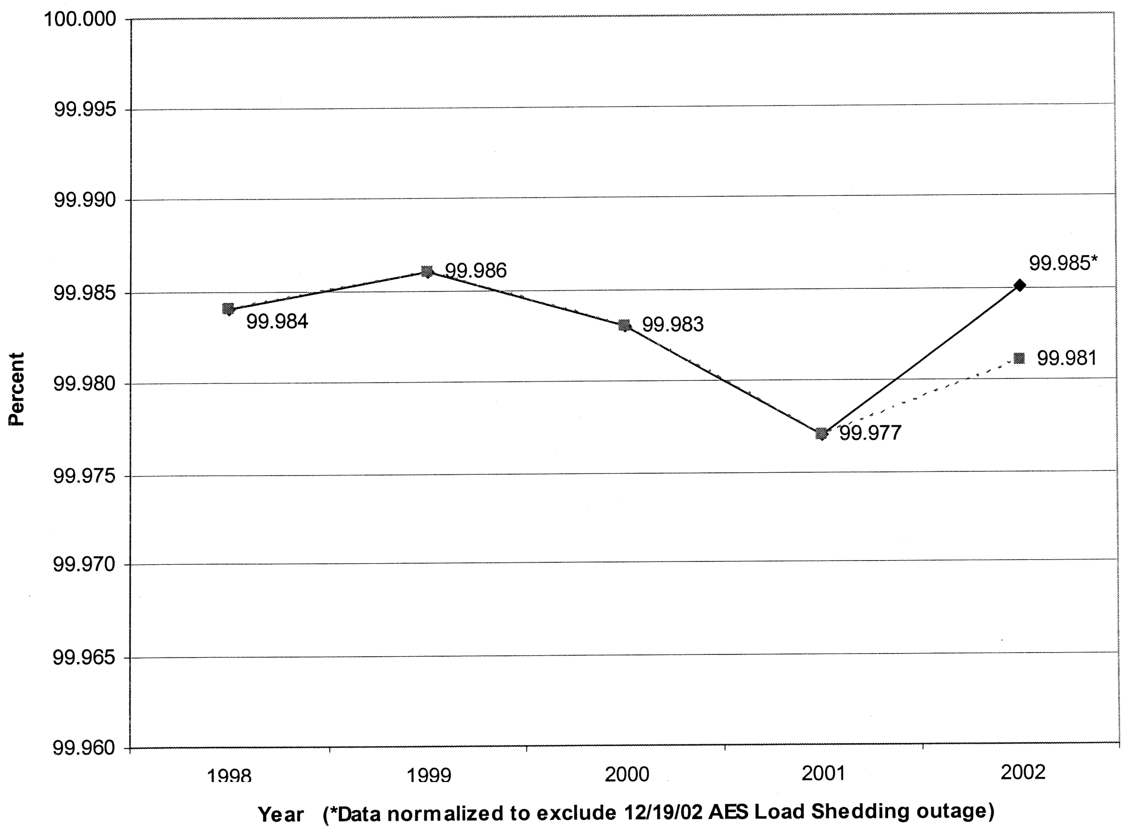


Figure 32 shows that the 2002 ASA index has increased from a low of 99.977 during 2001 and nearly matching a record high of 99.986% during 1999. Approximately 167,000 fewer customers experienced sustained service interruptions during 2002 compared to the previous year. The number of Customer-Hours Interrupted as shown in the table was the second lowest within the 5 year period.

Figure 33
HECO System Average Interruption Frequency (SAIF)

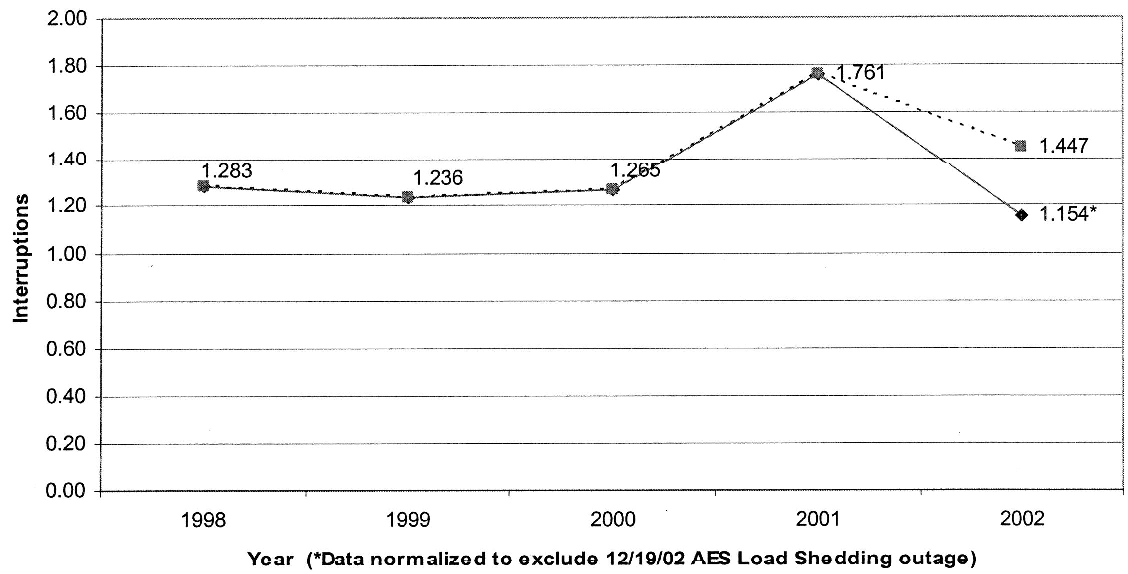


Figure 33 shows the SAIF indices for the past five years. It shows that in 2002 the SAIF was the lowest in the last five years at 1.15, or slightly more than one outage per customer for the year. Compared to past history, the 2002 SAIF of 1.15 was the best in the past 25 years.

A mild winter contributed to a low SAIF for 2002. The four major weather related categories - High Winds, Trees or Branches[3], Lightning and Unknown Failures - affected a total of 48,529 customers during 2002 compared to a total of 203,393 customers during 2001, a 76% reduction. Improvements were also noted in the areas of Cable Faults, Equipment Deterioration, Auto Accidents, and Foreign Object in the Line over 2001 SAIF results.

Three sustained interruptions affected 10,000 or more customers during 2002. Approximately 31,614 customers were affected by these top three interruptions for 2002, contributing 0.11 to the SAIF. Of the three sustained interruptions, two occurred on the sub-transmission system while adjacent lines were cleared for maintenance work, and the third occurred at AES Power Plant on May 10, 2002.

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

Figure 34
HECO Customer Average Interruption Duration (CAID)

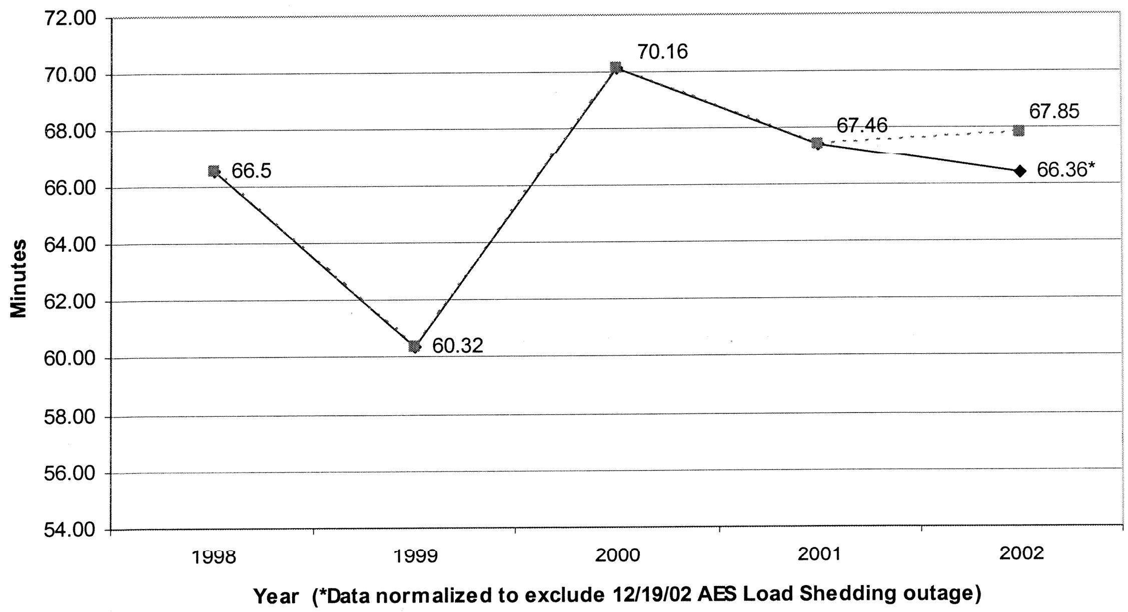


Figure 34 shows the CAID for 2002 ranked second in the past 5 years in minimizing the time a customer was out of service. Improvements in response times were noted for Cable Failures (1 minute), Foreign Object in the Line (57 minutes) and Auto Accidents (7 minutes) over the 2001 results.

The CAID for 2002 was 66.36 minutes. Within the last five years, 1999 had the shortest CAID of 60.32 minutes.

Figure 35
HECO System Average Interruption Duration (SAID)

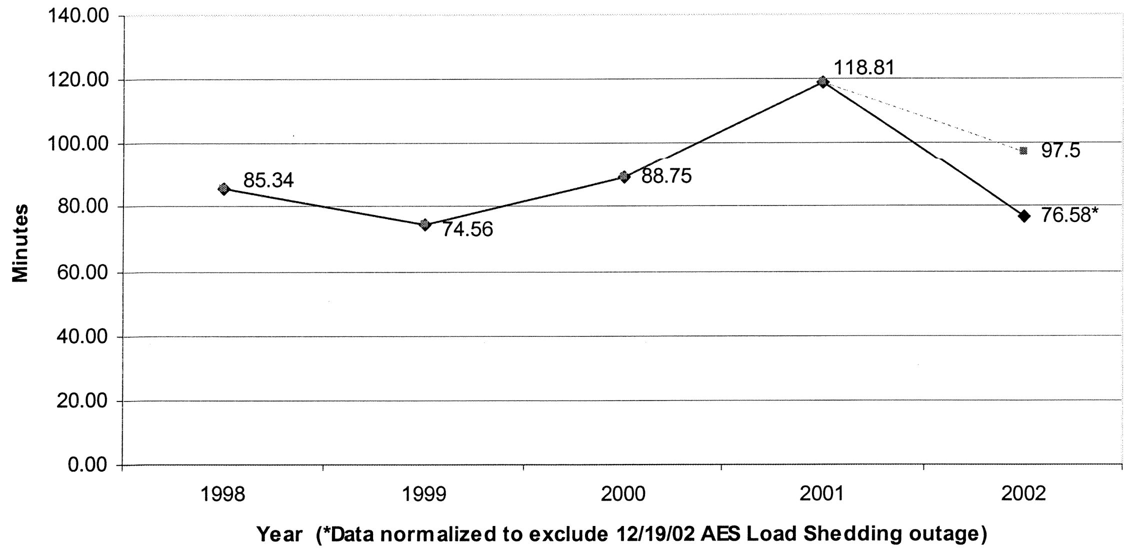


Figure 35 shows the SAID indices for the past five years. It shows that the 2002 SAID of 76.58 minutes was the second best during the last five years. The SAID is the composite of both the SAIF and CAID indices and produces a broader benchmark of system reliability by combining both the duration and the number of customer interruptions during a given period of time.

b. HECO UNNORMALIZED RESULTS

The unnormalized reliability results for 2002 were affected by load shedding when AES disconnected from the electrical grid. During the past five years from 1998 to 2002, the 2002 CAID index results of 67.85 minutes was ranked fourth in minimizing the time a customer was out of service. The SAIF index of 1.45, and the SAID index 98.19 minutes were ranked second highest in the same five year period, and the Average System Availability (ASA) index of 99.981 was ranked second lowest.

The primary contributors associated with the load shedding that occurred after AES cogenerator prematurely disconnected from the electric grid are currently under investigation.

Graphs of the ASA (Figure 32), SAIF (Figure 33), CAID (Figure 34), and SAID (Figure 35) for the five years are included above. Each of the graphs depicts both the normalized and unnormalized 2002 data.

2. MECO 2002 SERVICE QUALITY RESULTS.

The following MECO electric utility service quality discussion is based on or excerpted directly from the MECO Annual Service Reliability Report 2002 submitted to the Commission by MECO. The report covers the 2002 calendar year. A complete copy is available for review at the Commission's office and will be made available on the Commission's website.

The average number of electric customers increased from 58,308 in 2001 to 59,410 in 2002 (a 1.85% increase). The peak 2002 demand for the system was 193.9 MW (gross) that occurred on August 13, 2002. This peak 2002 demand is now the highest peak demand for the system, increasing from 191.0 MW (gross) on August 27, 2001 (a 1.495% increase).

To determine the relative level of reliability, the statistics for four prior years, 1998 through 2001 are used for comparison.

The reliability indices are calculated using the data from all system outages except customer maintenance outages. MECO has not normalized any data for 1998, 1999, 2000, 2001, and 2002. Normalizing of data would be in accordance with the guidelines specified in the HECO Reliability Indices Report.

Graphs of the ASA (Figure 36), SAIF (Figure 37), CAID (Figure 38), and SAID (Figure 39) for the five years are included below.

a. MECO 2002 UNNORMALIZED RESULTS.

The MECO 2002 service reliability results (unnormalized) indicate that MECO had a good year with improvements in all reliability indices.

The ASA index of 99.9943% is ranked best for the last five years.

The SAIF index of 0.579 is ranked third best for the last five years.

The CAID index of 50.95 minutes is ranked best for the last five years. Traffic congestion continues to be a big contributor in keeping this index high.

The SAID index of 29.49 minutes is ranked best for the last five years.

Due to the large increase of trees that required clearing, tree related outage has increased and account for 6.54% of the total of all outages for 2002. Although the resulted 34 tree related outages represents an increase of 25.9% from the 27 tree related outages for 2001, the tree trimming program continues to have the support and joint effort of county government and private landowners.

Weather related outages accounted for 10.58% of the total of all outages for 2002. The most significant incident occurred on October 15, 2002 at 0535 Hrs., when lightning caused the Maalaea-Waiinu, Maalaea-Puunene, and the Kealahou-Kula 69KV Lines to alternately relay open. The Load Dispatch Supervisor systematically closed each 69KV Line and prevented a similar situation of August 15, 2001 at 2042 Hrs. from occurring, the complete separation of the Kahului and the Maalaea Power Plants. In this incident, Lightning caused interruption of service only to the Distribution Circuits in Makawao and Waikapu areas, involving approximately 275 customers for 62 to 318 minutes.

b. ANNUAL SERVICE RELIABILITY INDICES.

The unnormalized reliability results for 2002, 2001, 2000, 1999, and 1998 are shown in the "MECO Table of Annual Service Reliability Indices". Figures 36-39 contain the data discussed above in graphical form.

MECO Table of Annual Service

Reliability Indices

	1998	1999	2000	2001	2002
Number of Customers	54,871	55,786	57,000	58,308	59,410
Customer Hrs. Interrupted	111,569	38,894	38,288	50,665	29,201
Customer-Interruptions	63,776	26,936	27,987	37,691	34,388
ASA (Percent)	99.9768	99.9920	99.9929	99.9901	99.9943
SAIF (Occurrence)	1.162	0.483	0.491	0.646	0.579
CAID (Minutes)	104.96	86.64	75.65	80.65	50.95
SAID (Minutes)	122.00	41.83	37.15	52.14	29.49

Figure 36
MECO Average Service Availability (ASA)

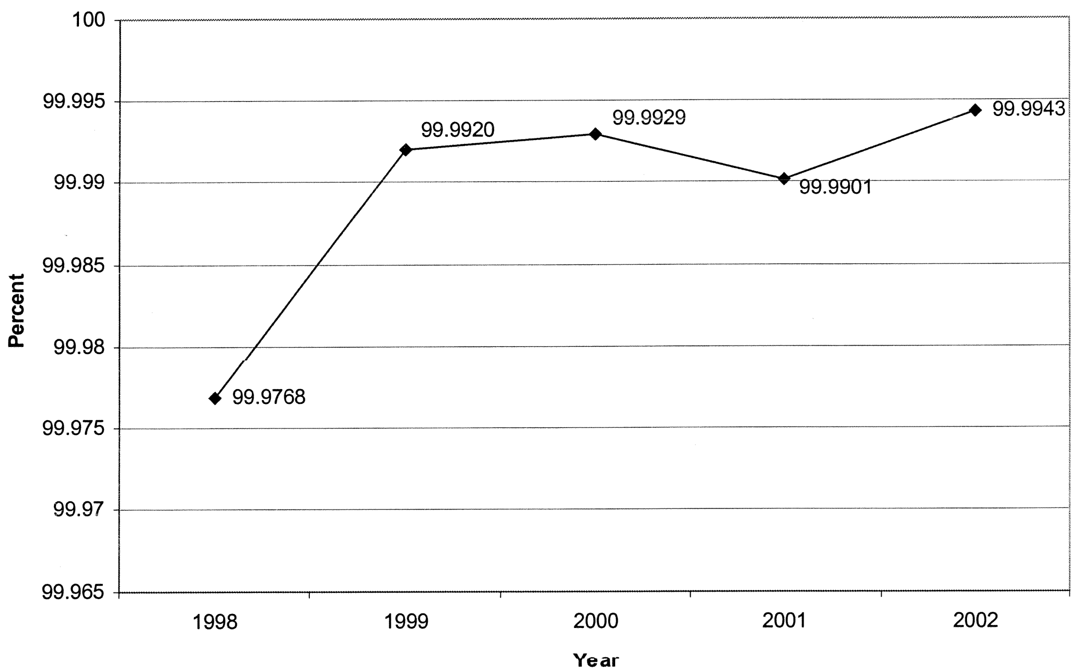


Figure 37
MECO System Average Interruption Frequency (SAIF)

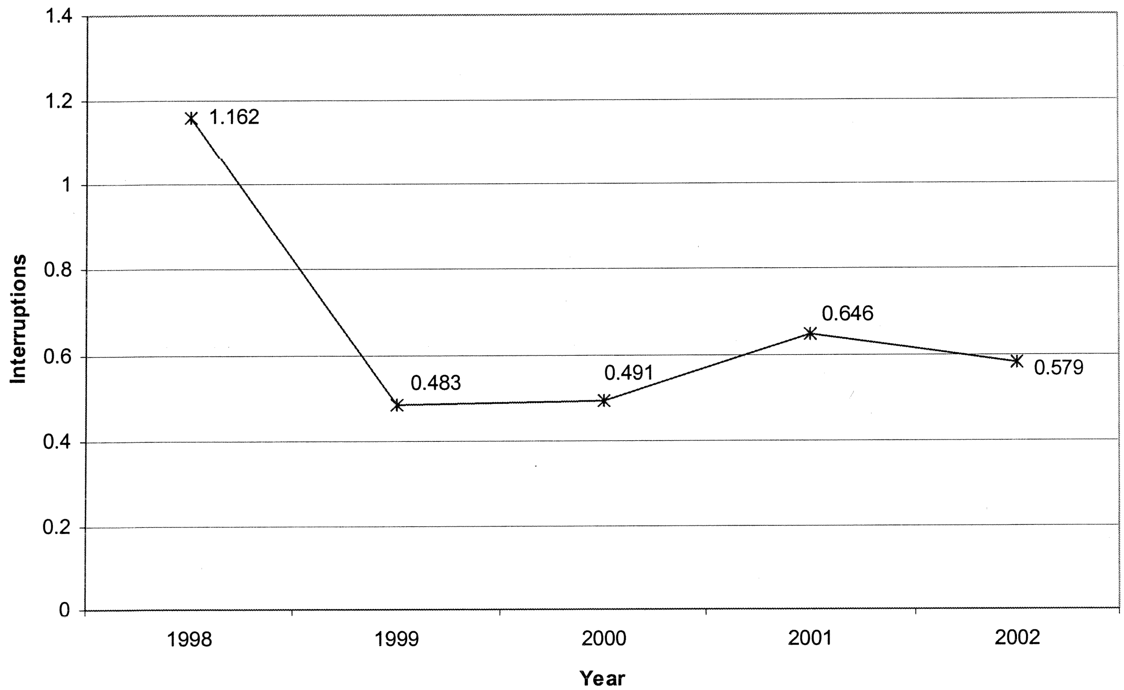


Figure 38
MECO Customer Average Interruption Duration (CAID)

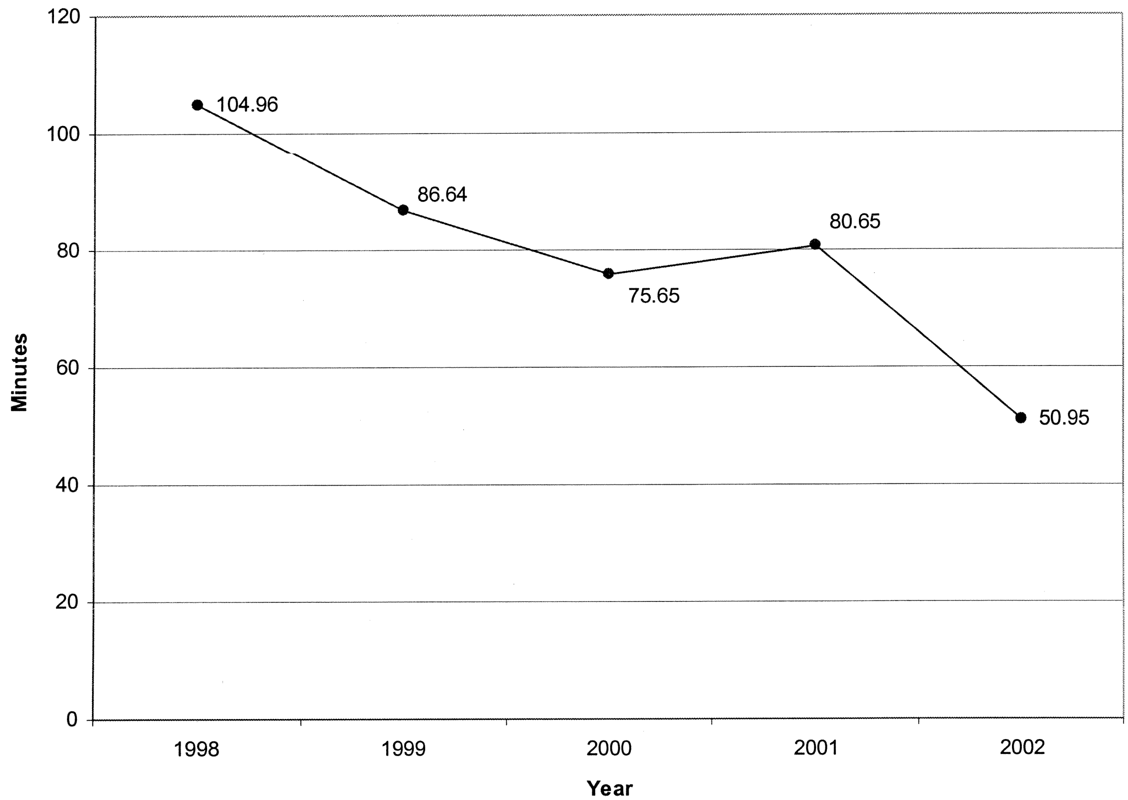
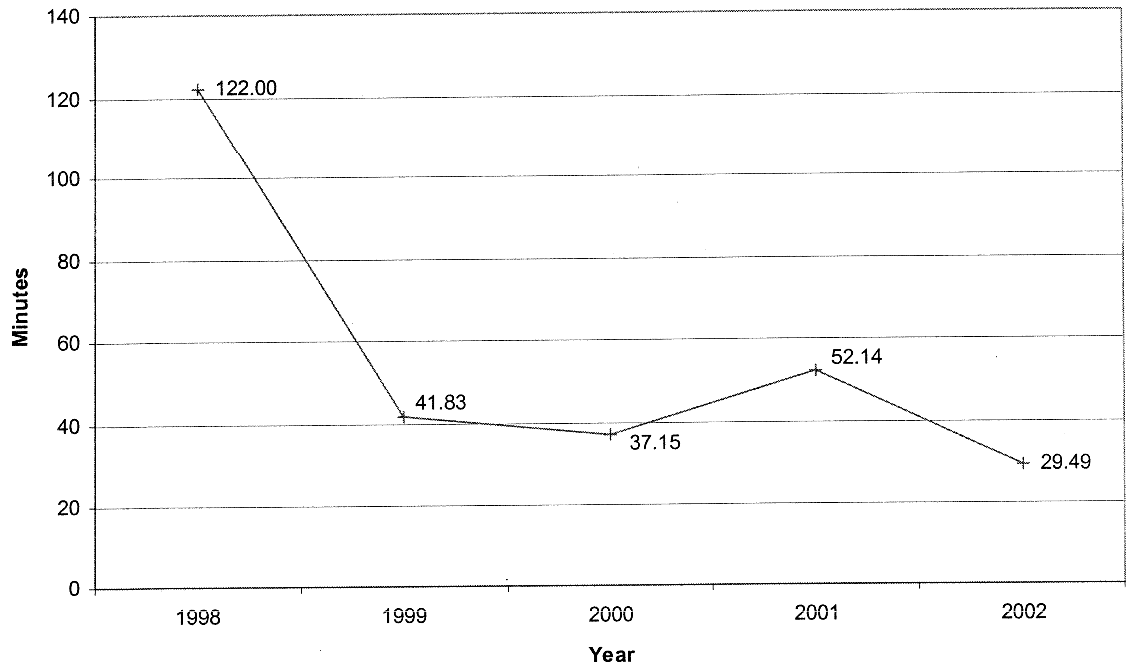


Figure 39
MECO System Average Interruption Duration (SAID)



3. HELCO 2002 SERVICE QUALITY RESULTS.

The following HELCO electric utility service quality discussion is based on or excerpted directly from the HELCO Annual Service Reliability Report 2002 submitted to the Commission by HELCO. The report covers the 2002 calendar year. A complete copy is available for review at the Commission's office and will be made available on the Commission's website.

The reliability indices are calculated using the data from all system outages with the exception of customer maintenance outages.

Guidelines for normalizing data were specified in Determining Reliability Indices Report prepared for the Commission. HELCO has normalized data for 2002 as follows:

On the afternoon of April 4, a transformer failed at HELCO's Kahaluu Substation. The incident caused four transmission lines to open and affected service to 33,795 customers and accounted for 23,192.6 customer interruption hours.

On the morning of April 13, Hamakua Energy Partners ("HEP") generator tripped offline while exporting 31.5MW. The incident affected 20,822 customers and accounted for 9,711.5 customer interruption hours.

On the morning of April 23, HEP generator tripped offline while exporting 31.5MW. The incident affected 15,984 customers and accounted for 2,141.1 customer interruption hours.

On the morning of November 5, a transformer bushing failed on HELCO's Puna Power Plant step-up transformer. Three 69KV transmission lines opened, a 34KV transmission line opened, and HELCO's Combustion Turbine 3 and Puna Power Plant tripped offline. The incident affected 13,819 customers and accounted for 2,693.2 customer interruption hours.

On the morning of November 29, a fault occurred in the switchgear at HELCO's Huehue Substation resulting in the HEP power plant tripping offline. As a result of the sudden loss of 60MW of generation, customers islandwide were automatically disconnected. Back-up generation was quickly placed online and power restored to most of the customers. However, without the availability of HEP and with customer loads increasing at daybreak, it was necessary to institute rolling blackouts. This incident affected 59,150 customers and accounted for 47,077.6 customer interruption hours.

Statistics for 2001 are compared to the five prior years, 1997 through 2001 to determine the relative level of HELCO system reliability.

In 2002, the HELCO Service Reliability was significantly impacted by a combination of Independent Power Producer reliability, HELCO Generating unit reliability, and HELCO substation equipment reliability.

In 2002, performance by Independent Power Producers continued to impact HELCO service reliability. From April through December 2002, Puna Geothermal Ventures ("PGV") reduced their output from their contract capacity of 30MW to 5MW due to a steam supply well problem. PGV's reduced capacity for the majority of the year contributed to several generation shortfall situations that resulted in service interruptions to HELCO customers. HEP also continued to experience problems with their units. Sudden unit trips and output reductions on short notice by HEP resulted in eight incidents of service interruptions to HELCO customers.

HELCO's own generating units also encountered problems in 2002. Combustion Turbine 1 was unavailable due to a scheduled generator rotor rewind work. Puna Steam Plant experienced a Turbine Bearing failure upon start up that extended its overhaul period and contributed to generation shortfall situations. Puna Combustion Turbine 3 experienced control and fuel valve problems that also caused sudden trips and output reductions on short notice that resulted in service interruptions to HELCO customers.

In 2002, HELCO also experienced a higher than normal rate of substation equipment failures. A transformer failure occurred at Kahaluu substation and a transformer failed twice at Puna substation. A switchgear failure also occurred at Huehue substation. Each of these substation equipment failures led to power interruptions to numerous HELCO customers.

In 2002, on an unnormalized basis, the SAIF index was 5.137, of which 1.793 was related to Independent Power Producers, 0.676 related to HELCO Generation and 2.668 related to Transmission and Distribution causes. The 2002 SAIF of 5.137 was the highest recorded in the past six years. The 1.793 for SAIF related to Independent Power Producers was the second highest in the last six years. The 0.676 for SAIF related to HELCO Generation was the highest in the last six years. The 2.668 for SAIF for T&D related interruptions was the second highest in the past six years. On a normalized basis, the SAIF index was 2.962 which was the second highest in the last six years.

In 2002, on an unnormalized basis, the CAID index was 42.24 minutes which was the second lowest in the last six years. The CAID index for power interruptions related to generation was 22.5 minutes, the highest in the last six years. The CAID index for power interruptions related to Transmission and Distribution causes was 60.51 minutes, which was the third lowest in the last six years. On a normalized basis, the CAID index was 47.26 minutes which was the third lowest in the last six years.

One of the leading causes of power interruptions on the HELCO system is trees and branches. In 2002 the number of customer hours of interruption related to trees and branches was 20,505 hours, the third highest in the last six years, but an improvement over the 28,360 hours recorded in 2001. The SAIF index for power interruption related to trees and branches was 0.257 in 2002, an improvement over the 0.427 recorded in 2001.

Figure 40
HELCO Average Service Availability (ASA)

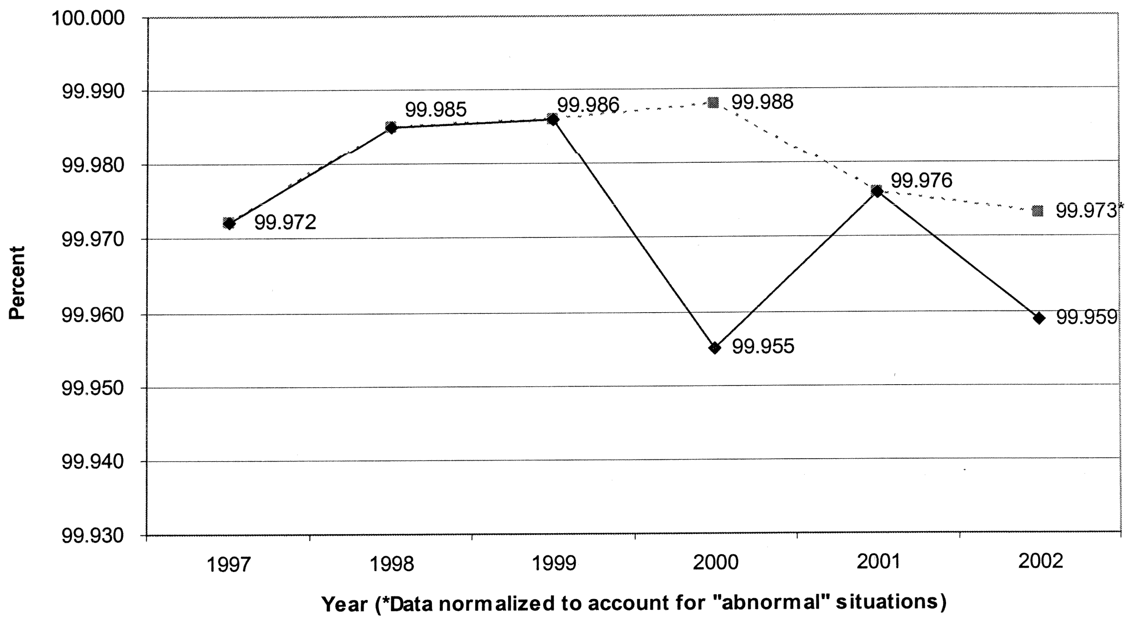


Figure 41
HELCO System Average Interruption Frequency (SAIF)

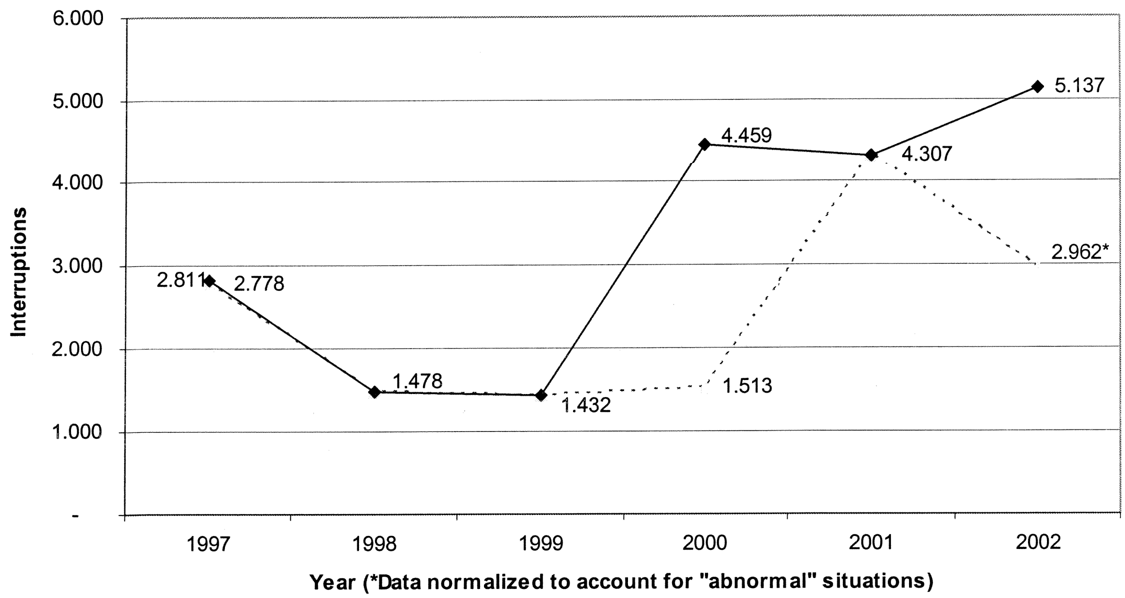
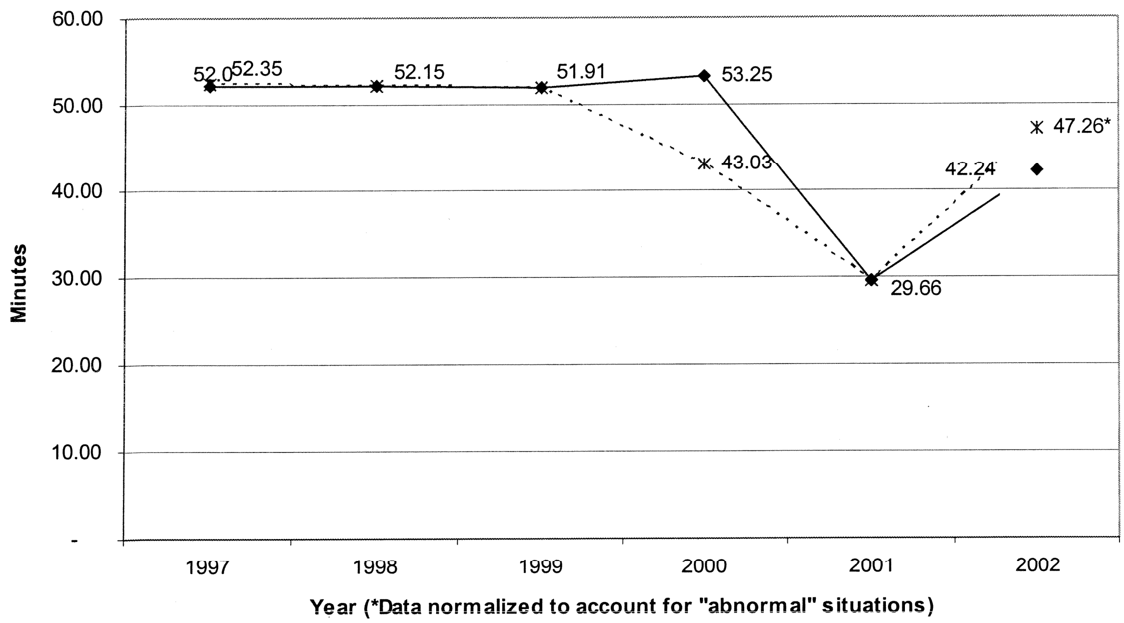


Figure 42
HELCO Customer Average Interruption Duration (CAID)



HELCO Table of Annual Service Reliability Indices

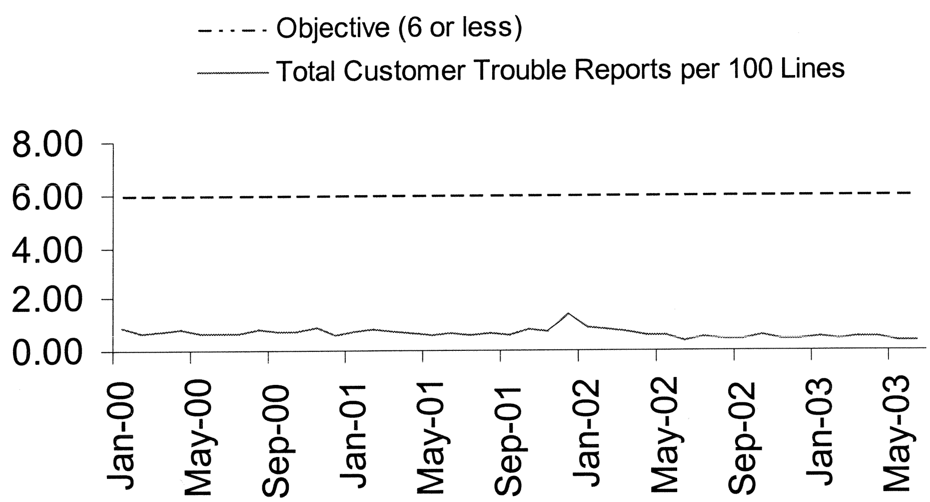
	1997	1998	1999	2000	2001	2002
Number of Customers	59,744	60,585	61,796	63,207	64,660	66,034
Normalized:*						
Customer Interruptions	165,908	89,564	88,461	95,604	278,507	195,614
Customer Hours Interrupted	144,749	77,846	76,532	68,562	137,659	154,063.8
ASA (Percent)	99.972	99.985	99.986	99.988	99.976	99.973
SAIF (Occurrence)	2.778	1.478	1.432	1.513	4.307	2.962
CAID (Minutes)	52.35	52.15	51.91	43.03	29.66	47.26
Not Normalized:						
Customer Interruptions	167,898	89,564	88,461	281,818	278,507	339,184
Customer Hours Interrupted	145,755	77,846	76,532	250,115	137,659	238,789.8
ASA (Percent)	99.972	99.985	99.986	99.955	99.976	99.959
SAIF (Occurrence)	2.811	1.478	1.432	4.459	4.307	5.137
CAID (Minutes)	52.09	52.15	51.91	53.25	29.66	42.24

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

B. TELECOMMUNICATIONS UTILITIES EFFICIENCY AND SERVICE QUALITY.

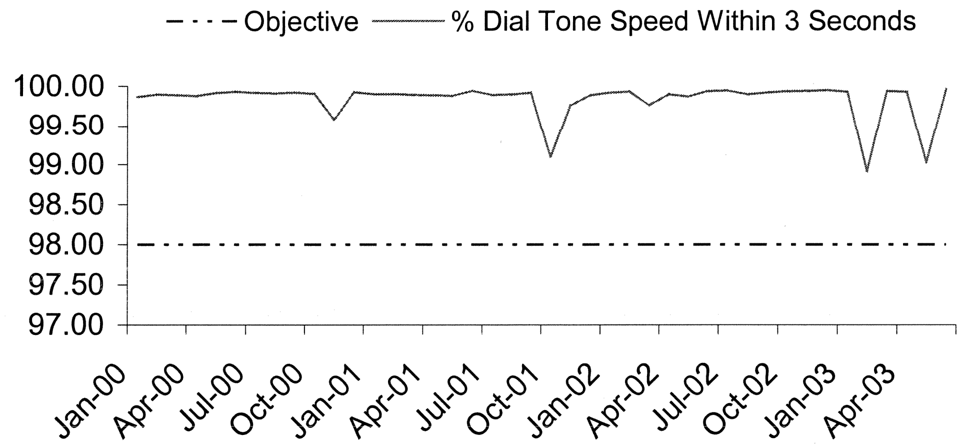
The following service quality data was provided to the Commission by Verizon Hawaii as required under HAR Sections 6-80-92 through -98.

Figure 43
Total Customer Trouble Reports Per 100 Lines



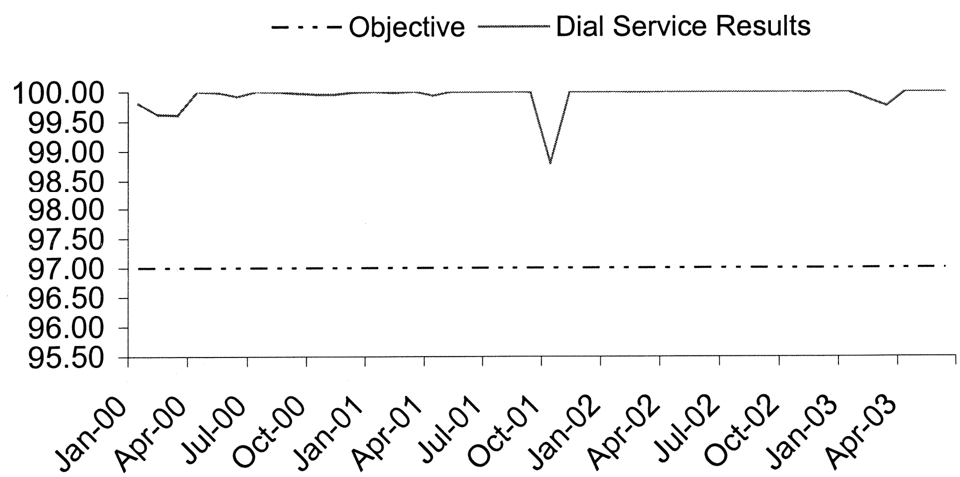
Total Customer Trouble Reports Per 100 Lines - This performance area measures customer network trouble reports per 100 access lines. It is calculated by taking the total customer network trouble reports divided by total access lines times 100.. As shown in Figure 43, Verizon Hawaii has been able to meet its objective for this performance standard during the period reported.

Figure 44
Dial Tone Speed - % Dial Tone Within 3 Seconds



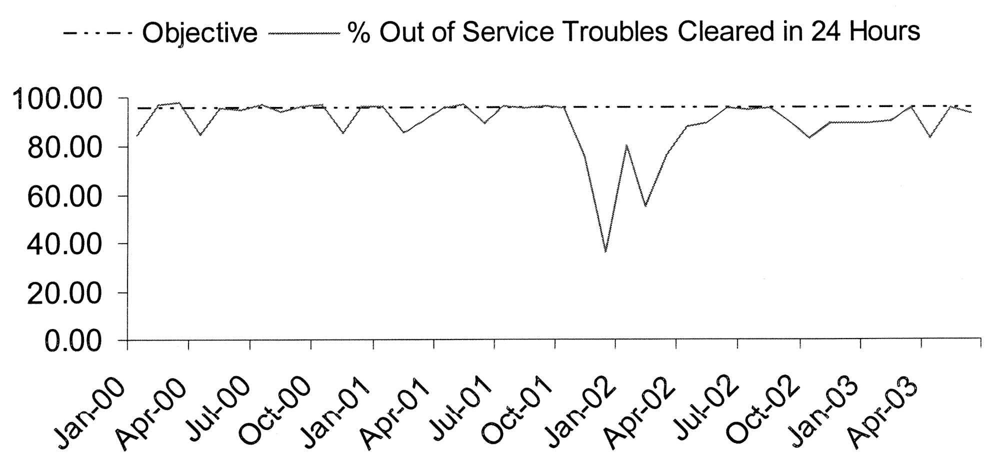
Dial Tone Speed - % Dial Tone Within 3 Seconds - This performance area measures the percentage of calls receiving dial tone within three (3) seconds. It is calculated by taking the number of calls in which dial tone was provided within three (3) seconds divided by the total number of calls times 100. As shown in Figure 44, Verizon Hawaii has been able to meet its objective for this performance standard during the period reported.

Figure 45
Dial Service Results - % Completion



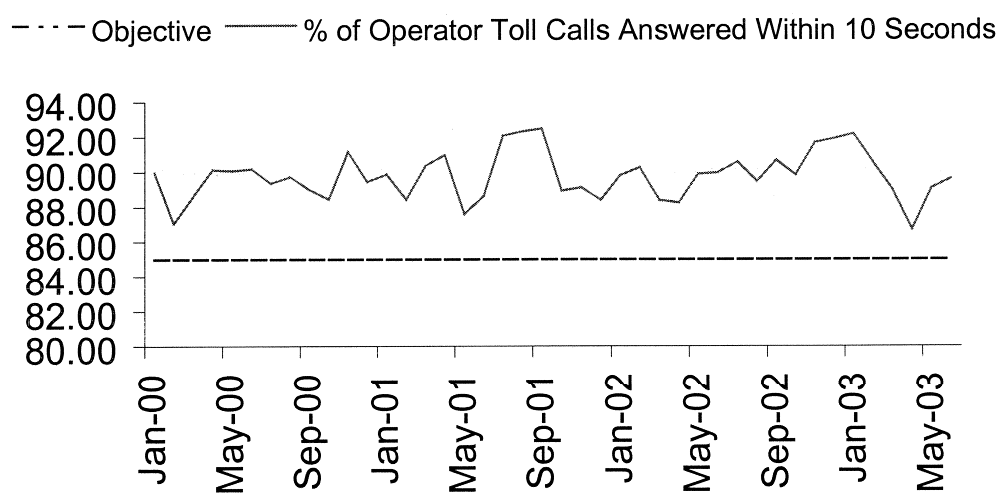
Dial Service Results - % Completion - This performance area measures call completion performance on interoffice trunk groups. It is calculated by taking the number of unblocked calls on interoffice trunk groups divided by the total number of attempts on interoffice trunk groups times 100. As shown in Figure 45, Verizon Hawaii has been able to meet its objective for this performance standard during the period reported.

Figure 46
% OOS Trouble Cleared in 24 Hours



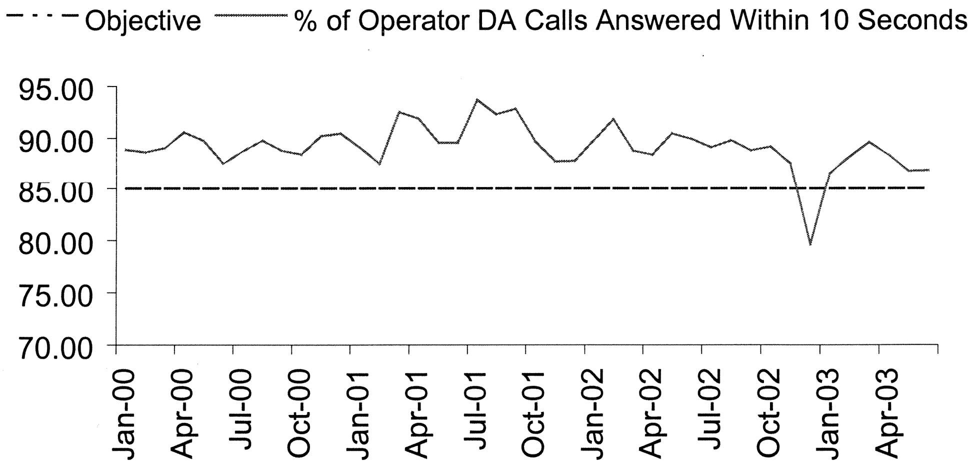
% OOS Trouble Cleared in 24 Hours - This performance area measures customer out-of-service (OOS) network trouble reports cleared within 24 working hours. It is calculated by taking the total customer OOS network reports cleared within 24 working hours divided by the total customer OOS network trouble reports times 100. As shown in Figure 46, Verizon Hawaii has had difficulty meeting this standard since late 2001, but has met the standard on occasion and at the end of the Fiscal Year.

Figure 47
% Operator Toll Calls Answered Within 10 Seconds



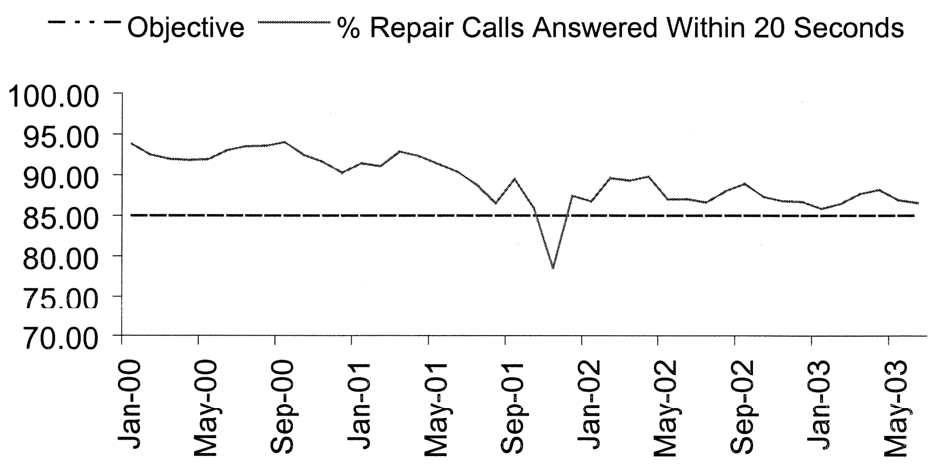
% Operator Toll Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the toll operator. As shown in Figure 47, Verizon Hawaii has been able to meet its objective for this performance standard during the period reported.

Figure 48
% Operator Directory Assistance Calls Answered Within 10 Seconds



% Operator Directory Assistance Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the directory assistance operator. As shown in Figure 48, except for a brief period in late 2002, Verizon Hawaii has been able to meet its objective for this performance standard during the period reported.

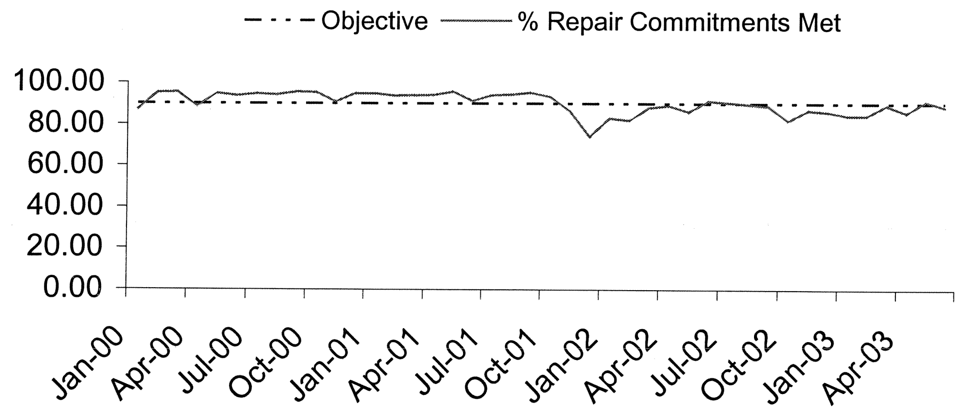
Figure 49
% Repair Calls Answered Within 20 Seconds



% Repair Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the repair answer center. As shown in Figure 49, except for a brief period in late

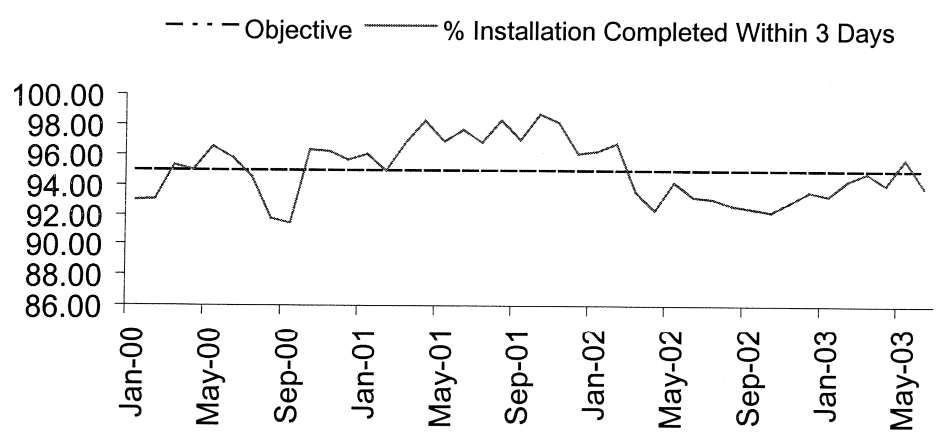
2001, Verizon Hawaii has been able to meet its objective for this performance standard during the period reported.

Figure 50
% Repair Commitments Met



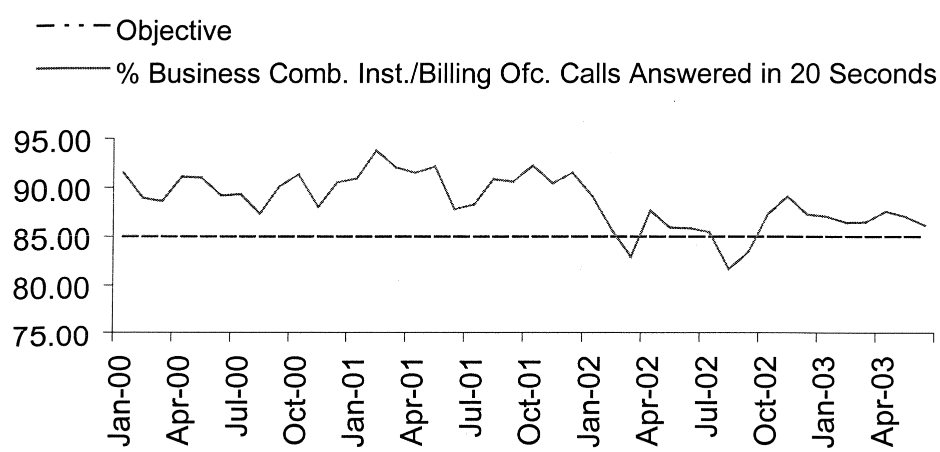
% Repair Commitments Met - This performance area measures the repair tickets completed by the committed due date. It is calculated by taking the total customer network trouble reports for which the commitments were met divided by total customer network troubles times 100. As shown in Figure 50, Verizon Hawaii has had difficulty attaining the targeted objectives on a consistent basis, unlike the prior years shown in the graph.

Figure 51
% Installations Completed Within 3 Days



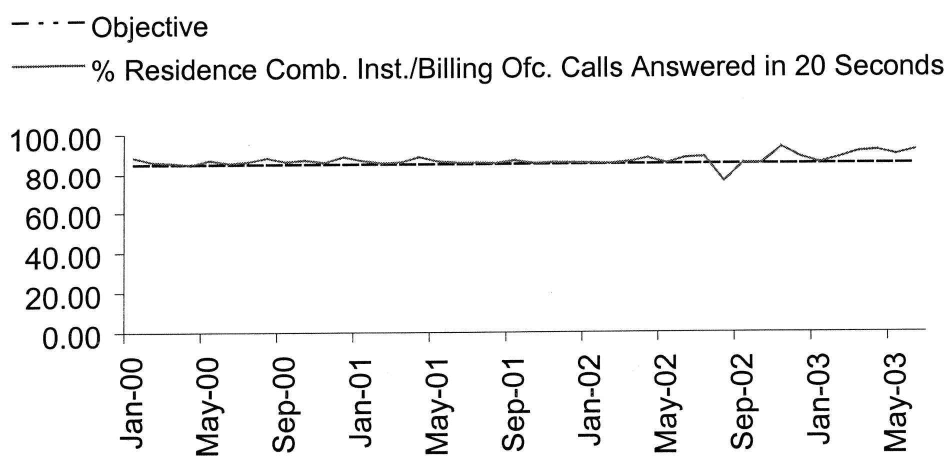
% Installations Completed Within 3 Days - This performance area measures the percent of basic orders completed within three (3) working days. It is calculated by taking the total installation (I), move (M) and change (C) basic orders completed within three (3) working days divided by the total number of I, M and C orders times 100. As shown in Figure 51, Verizon Hawaii has had difficulty attaining the targeted objectives on a consistent basis, but it showed improvement throughout the Fiscal Year.

Figure 52
% Combined Business Installation/Billing Office Calls Answered Within 20 Seconds



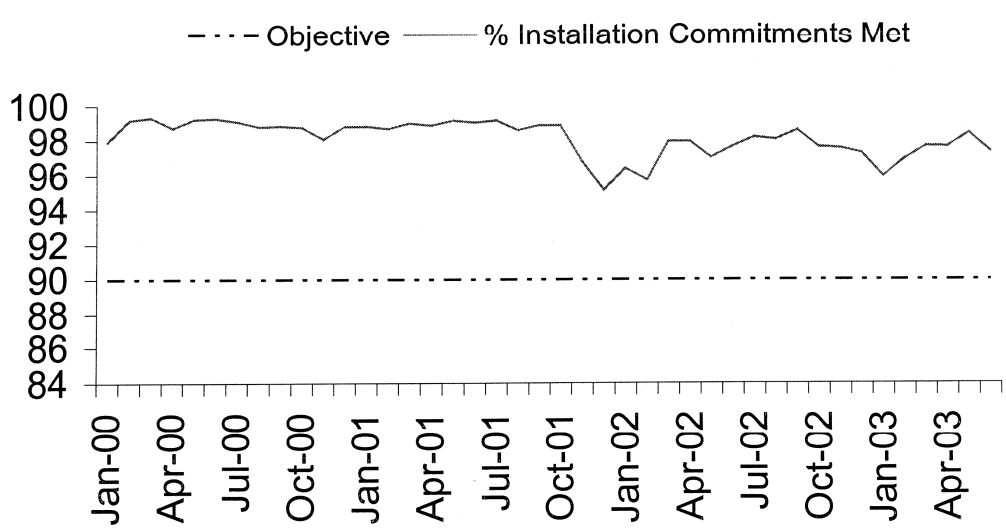
% Combined Business Installation/Billing Office Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the business installation and billing center. As shown in Figure 52, Verizon Hawaii had difficulty attaining the targeted objectives on a consistent basis, unlike the prior years shown in the graph, but was able to meet the objectives during the second half of the Fiscal Year.

Figure 53
% Combined Residence Installation/Billing Office Calls Answered Within 20 Seconds



% Combined Residence Installation/Billing Office Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the residence installation and billing center. As shown in Figure 53, except for a brief period in mid 2002, Verizon Hawaii has been able to meet its objective for this performance standard during the period reported.

Figure 54
% Installation Commitments Met



% Installation Commitments Met - This performance area measures the percent of basic orders where the work for the customer is complete and service is available for use by no later than the commitment made to the customer. It reflects the percent as calculated by taking the installation (I), move (M) and change (C) order installation commitments met divided by the total number of I, M and C orders taken times 100. As shown in Figure 54, Verizon Hawaii has been able to meet its objective for this performance standard during the period reported.

C. RENEWABLE PORTFOLIO STANDARDS

Act 272 of 2001 was signed into law on June 25, 2001 and is now codified under HRS Section 269-91, to provide that:

"Each electric utility company that sells electricity for consumption in the State shall establish a renewables portfolio standard goal of:

(1) Seven per cent of its net electricity sales by December 31, 2003;

(2) Eight per cent of its net electricity sales by December 31, 2005; and

(3) Nine per cent of its net electricity sales by December 31, 2010."

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

"'Renewable energy" means electrical energy produced by wind, solar energy, hydropower, landfill gas, waste to energy, geothermal resources, ocean thermal energy conversion, wave energy, biomass including municipal solid waste, biofuels or fuels derived entirely from organic sources, hydrogen fuels derived entirely from renewable energy, or fuel cells where the fuel is derived entirely from renewable sources. It also means electrical energy savings brought about by the use of solar and heat pump water heating.

Any electric utility company not meeting the renewable portfolio standard by the goal dates set forth above must report to the Commission within 90 days following the goal dates, and provide an explanation for not meeting the renewable portfolio standards.[19] The Commission has the option to either grant a waiver from the renewable portfolio standard or an extension for meeting the prescribed standard. The Commission may also provide incentives to encourage electric utility companies to exceed their renewable portfolio standards or to meet their renewable portfolio standards ahead of time, or both.

As of December 31, 2002, HECO, HELCO and MECO, in the aggregate, have held a renewable portfolio standard of approximately 6.76 per cent. As of December 31, 2002, KE (nka, KIUC) has held a renewable portfolio standard of approximately 7.79 per cent.

[19] The first report is due on or about March 31, 2004.

X. ACTIONS OF THE FEDERAL GOVERNMENT AFFECTING THE REGULATION OF PUBLIC UTILITIES IN HAWAII.

A. NEW FEDERAL RULES ON LOCAL TELEPHONE SERVICE COMPETITION

On February 20, 2003, as part of a triennial review of its rules that govern competition for local telephone service pursuant to the Telecommunications Act of 1996, the FCC adopted new rules on incumbent local exchange carriers' ("ILECs") obligations to make elements of their networks available on an unbundled basis to new entrants. The new rules, among other things, delegate to the Commission and to other state commissions the task of determining the obligations of ILECs to continue to unbundle certain parts of their networks for use by competitive local exchange carriers ("CLEC"). State commissions are to analyze the extent, if any, to which competitors are impaired, or faced with barriers to entry, if they are not given access to those unbundled network elements and to take certain actions to alleviate any such impairment. These requirements must be completed by two separate deadlines – within ninety (90) days and nine (9) months from the effective date of the FCC's order setting forth the new rules ("Triennial Review Order"). As of June 30, 2003, the FCC had not yet released its Triennial Review Order.[20]

B. IMPLEMENTATION OF WIRELESS LOCAL NUMBER PORTABILITY ("LNP")

On July 26, 2002, the FCC released its order extending the wireless LNP implementation deadline by one (1) year to November 24, 2003, to give wireless carriers adequate time to resolve all outstanding LNP implementation issues. Starting on that date, wireless carriers in the largest 100 Metropolitan Statistical Areas (MSAs)[21] must be able to support LNP, under which wireless customers can switch to a new wireless carrier within the same geographic area and keep their existing phone number.[22] Without wireless LNP, when customers switch wireless carriers or replace their wireline phone with wireless service, they lose their current phone number and potentially all their contacts that are familiar with that phone number. Wireless LNP is intended to address that problem.

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[20] The FCC issued its Triennial Review Order on August 21, 2003, and the effective date was October 2, 2003. In response, the Commission initiated a proceeding on September 29, 2003 to implement the requirements of the Triennial Review Order. That proceeding remains pending at this time, and is discussed in the Preview 2003-04 section of this Annual Report.

[21] The list of 100 largest MSAs includes Honolulu, Hawaii, which is ranked 68th on the list released by the FCC.

[22] On November 10, 2003, the FCC reaffirmed that wireline carriers also must be able to transfer or "port" customers' phone numbers to wireless carriers under its current rules. Consequently, effective November 24, 2003, customers may also be able to keep their phone number in the event they switch from a wireline carrier, such as Verizon Hawaii, to a wireless carrier.

XI. LEGISLATION ENACTED BY 2003 LEGISLATURE AFFECTING PUBLIC UTILITIES.

A. The 2003 Hawaii State Legislature enacted the following measures relating to the Public Utilities Commission:

1. TRS.

Act 50, SLH 2003, amends Section 269-16.6, HRS, which requires the Commission to implement a TRS program for the deaf, hearing impaired, and speech-impaired. Act 50 provides the Commission with greater flexibility in establishing a mechanism to recover the costs of administering and providing TRS in Hawaii and authorizes the Commission to adopt rules to establish such a mechanism. The Commission is allowed to establish a surcharge to collect customer contributions for TRS. Act 50 also clarifies that the Commission require every intrastate telecommunications carriers to file a schedule of rates and charges and every provider of TRS to maintain a separate accounting for the costs of providing TRS.

2. MANAGEMENT AUDIT OF COMMISSION.

Act 94, SLH 2003, requires the Auditor to conduct a management audit of the Commission that includes the following areas: (1) appropriateness and applicability of current utility legislation; (2) adequacy of coverage of current Commission policies, rules, and procedures; (3) management of the Commission and the Division of Consumer Advocacy in terms of providing technical and analytical staff support in case management and enforcement of the Commission's rules; and (4) the effectiveness of the Commission and the Division of Consumer Advocacy in dealing with telecommunications, energy, and other utility issues. The Auditor is required to submit its findings and recommendations, including any proposed legislation, to the Legislature and the Governor no later than 20 days prior to the convening of the 2004 regular session.

3. LONG-TERM BENEFITS OF RENEWABLE RESOURCES.

Act 132, SLH 2003, amends Section 269-54, HRS, by requiring the Consumer Advocate to consider the long-term benefits of renewable resources in its role as Consumer Advocate.

4. ANNUAL FUEL MIX DISCLOSURE.

Act 147, SLH 2003, amends Chapter 269, HRS, by requiring that each retail supplier of electricity annually disclose information regarding fuel mix and average retail price. Beginning June 1, 2004 and every June 1 thereafter, each retail supplier of electricity is required to disclose fuel mix information by generation category to its existing and new retail electricity customers for the prior calendar year. Each retail supplier of electricity is also required to state the average retail price of electricity (per kilowatt-hour) for each rate class of service for the prior calendar year. The disclosure information is to be: (1) printed either on the customer's bill or as a bill insert and (2) posted and updated on the supplier's Internet website.

B. DURING THE 2003 HAWAII STATE LEGISLATURE, THE FOLLOWING RESOLUTIONS RELATING TO UTILITY ISSUES WERE ADOPTED:

1. WIRELESS ENHANCED 911 INTERIM WORKING GROUP:

House Concurrent Resolution ("H.C.R.") No. 120 establishes a wireless enhanced 911 working group consisting of 11 members from the: (1) Department of Health ("DOH"); (2) Legislative Reference Bureau ("LRB"); (3) wireless communications service companies--AT&T Wireless, Sprint PCS, T-Mobile, and Verizon Wireless; (4) City and County of Honolulu Police Department; (5) counties of Hawaii, Kauai, and Maui; (6) and Consumer Advocate. The Director of DOH serves as the chair of the working group. The Director of LRB or the Director's designee serves as the staff research and report writer. Upon request by DOH, the Commission's staff also attends the working group's meetings.

The working group has the following responsibilities: (1) determine the level of funding necessary to support new wireless identification and location services that comply with the rules of the FCC for the transmission of 911 calls from wireless carriers to enhanced 911 emergency communications systems; (2) recommend a wireless subscriber surcharge to provide funding for county provision of wireless enhanced 911 services; and (3) develop the means by which carriers will recover costs of providing emergency enhance 911 services. The working group is required to submit its findings and recommendations to the Legislature no later than 20 days prior to the convening of the 2004 regular session.

2. DEVELOPMENT OF STANDARDIZED PPAS:

H.C.R. No. 172, H.D. 1, ("H.C.R. No. 172") requests the Consumer Advocate to form an ad hoc advisory group to investigate and make recommendations regarding the development and implementation of standard offer contracts and standardized agreements to (1) reduce the approval process time for the implementation of renewable energy systems; and (2) facilitate the purchase of electricity from renewable energy producers in Hawaii. The ad hoc advisory group includes representatives from the following: Commission; HECO; HELCO; MECO; KIUC; TGC; State Department of Economic Development and Tourism; Counties of Hawaii, Maui, and Kauai; cogeneration producers; renewable energy producers; and energy and environmental organizations.

In addition, H.C.R. No. 172 requests the Consumer Advocate to create a spreadsheet including specific information on all existing PPAs, and, to the extent possible, for all PPAs currently under negotiation. The Consumer Advocate is required to report on (1) the PPA spreadsheet; (2) the methodology used by the Consumer Advocate to evaluate the non-financial costs and benefits of each PPA; (3) recommendations to shorten the approval process time for the implementation of new renewable energy systems; and (4) recommended standardized PPAs. The Consumer Advocate is requested to submit an interim report of the ad hoc advisory group to the Legislature at least 20 days prior to the convening of the 2004 regular session and a final report, and any necessary proposed legislation, to the Legislature at least 20 days prior to the convening of the 2005 regular session.

XII. PREVIEW 2003-04

In 2003-04, the Commission instituted two investigations relating to electric utilities: (1) to examine the potential benefits and impacts of distributed energy resources on Hawaii's electricity distribution system; and (2) to evaluate competitive bidding as a mechanism for acquiring or building new generating capacity in Hawaii. In the motor carrier area, the Commission instituted an investigation to examine the feasibility of establishing a zone of reasonableness for passenger and property motor carriers. In the telecommunications area, the Commission initiated a proceeding to implement the FCC's Triennial Review Order, rules relating to unbundling obligations of ILECs.

The following sections highlight the significant proceedings opened in 2003-04.

A. COMMISSION EXAMINES DISTRIBUTED ENERGY RESOURCES

Distributed generation, also referred to as "distributed energy resource" ("DER") or "distributed resources," involves the use of small scale electric generating technologies installed at, or in close proximity to, the end-user's location. The Commission anticipates that the use of distributed generation and DER will grow substantially in the coming years throughout the nation including Hawaii.

Pursuant to Sections 269-7 and 269-15, HRS, the Commission is authorized to examine and institute proceedings on any matter relating to a utility's practices and services or otherwise affecting the relations and transactions between the utility and the public. In October 2003, the Commission opened an investigation to examine the potential benefits and impacts of DER on Hawaii's electricity distribution system.[23] While DER encompasses other technologies, the focus of the Commission's investigation is on distributed generation.

Through its investigative proceeding, the Commission intends to address the generic distributed generation issues affecting the electric industry in Hawaii including, but not limited to: (1) interconnection matters; (2) who should own and operate distributed generation projects; (3) what impacts, if any, distributed generation will have on Hawaii's electric distribution systems and market; (4) the role of regulated electric utility distribution companies and the Commission in the deployment of distributed generation in Hawaii; (5) the rate design and cost allocation issues; and (6) the necessary revisions to the IRP process.

B. COMMISSION EVALUATES COMPETITIVE BIDDING FOR NEW GENERATING CAPACITY.

Competitive bidding for new generating capacity is often referred to as a wholesale market model that includes equity and efficiency considerations, encouragement of competitive generation options and new technologies, lower costs through competition, more choices, reliable supplies, and a level playing field on which all generation options could compete. The competitive bidding process has been widely implemented throughout the United States.

In October 2003, the Commission opened an investigation to evaluate competitive bidding as a mechanism for acquiring or building new generating capacity in Hawaii.[24] The

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[23] Docket No. 03-0371.

[24] Docket No. 03-0372.

Commission believes that competitive bidding for new generating capacity may provide a viable wholesale market competition alternative for the State of Hawaii. The potential benefits of competitive bidding include: (1) increasing the level of wholesale competition for electric power resources; (2) placing bidders under the same guidelines, rules, requirements, and bidding window; (3) encouraging new technologies and creative proposals; and (4) potentially lowering electricity prices and offering more choices to the electric consumer.

Through its investigative proceeding, the Commission intends to explore competitive bidding issues affecting the electric industry in Hawaii, including, but not limited to: (1) the benefits and impacts of competitive bidding; (2) the development of a fair competitive bidding system; and (3) the necessary revisions to the IRP process.

C. COMMISSION EXAMINES ZONE OF REASONABLENESS FOR MOTOR CARRIERS

The Commission's jurisdiction over passenger and property motor carriers includes the review and regulation of each carrier's rates and charges. The Commission reviews each carrier's proposal to establish new rates or to increase or decrease its existing rates. The Commission regulates approximately 530 passenger motor carriers and 385 property motor carriers. The motor carrier industry today is a highly competitive industry statewide.

In August 2003, the Commission opened an investigation to examine the feasibility of establishing a zone of reasonableness for passenger and property motor carriers.[25] Under such a mechanism, specific increases or decreases in a carrier's rates and charges within an established zone of reasonableness would be automatically approved, if the requested changes fall within the zone or range authorized by the Commission for that carrier's operations. The Commission intends to examine: (1) the feasibility of establishing a zone or some other mechanism to expedite the ratemaking and rate review procedures for regulated motor carriers; (2) whether a zone of reasonableness, if adopted, should apply to all motor carriers; and (3) what type of rates and charges will be subject to the zone.

In October 2003, the Commission set forth a proposal establishing a zone of reasonableness applicable to all passenger and property motor carriers. The Commission's proposal includes the following: (1) for purposes of discussion, a zone with points within the range of plus or minus ten per cent from a motor carrier's base rate; and (2) the zone will be effective during a one-year pilot period, from January 1, 2004 to December 31, 2004. The Commission received comments from the parties in this proceeding and will issue its decision in 2003-04.

D. COMMISSION IMPLEMENTS THE FCC'S TRIENNIAL REVIEW ORDER.

In August 2003, the FCC released its Triennial Review Order that establishes new rules governing the obligations of ILECs to make elements of their network available on an unbundled basis to CLECs. The FCC delegated to state commissions the task of undertaking proceedings to determine the unbundling obligations of ILECs concerning certain network elements in specific geographic markets.

The FCC instructed state commissions to conduct and complete "granular" proceedings within the framework of the Triennial Review Order. Commissions are given 90 days from the effective date of the Triennial Review Order (October 2, 2003) to rebut the FCC's "national

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[25] Docket No. 03-0245.

finding" of no impairment for switching for large business customers, served by high-capacity loops. Commissions are also given 9 months from the effective date of the Triennial Review Order to determine whether or not economic and operational impairment exists in particular geographic markets for mass-market customers (residential and very small business customers) under the new FCC test for "impairment."

In September 2003, the Commission opened a proceeding to implement the FCC's Triennial Review Order in the State.[26] The current parties to Docket No. 7702, the Commission's ongoing communications infrastructure proceeding, are made parties to the Triennial Review Order proceeding. The parties include: the Consumer Advocate; AT&T Communications of Hawaii, Inc.; Pacific LightNet; Sprint; Time Warner Telecom of Hawaii, L.P., dba Oceanic Communications; U.S. Department of Defense and all other Federal executive agencies; and Verizon Hawaii.

The Commission will conduct the reviews concurrently in two distinct and separate parts, Part I and Part II, relating to the 90-day review and the 9-month review, respectively. For Part I of this proceeding, the Commission required any CLEC who wishes to rebut the FCC's no impairment finding for switching for large business customers that are served by large capacity loops, such as DS-1s, to file a motion to proceed within 20 days of its order. For Part II of this proceeding, the Commission will move forward with its analysis under the assumption that a 9-month review is required or appropriate.

[26] Docket No. 03-0272.