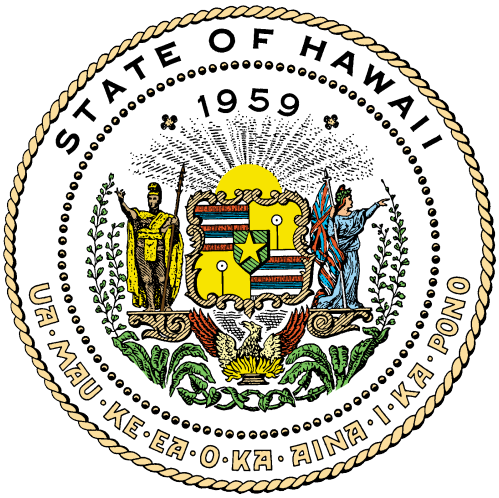

PUBLIC UTILITIES COMMISSION

STATE OF HAWAII

ANNUAL REPORT

(HAW. REV. STAT. § 269-5)

FISCAL YEAR 2011-12

NOVEMBER 2012

Executive Summary

The Public Utilities Commission ("Commission" or "PUC") of the state of Hawaii submits this Annual Report pursuant to Section 269-5, Hawaii Revised Statutes ("HRS"). This report summarizes the Commission's accomplishments, states its goals and objectives and tracks data and trends affecting the businesses and sectors it regulates.

As the Commission enters its 100th year of regulatory authority, this Annual Report includes a section of the Commission origins, history and organizational developments, as well as landmark decisions and developments which have shaped the Commission's present day structure and practices. Also, included are listings of the Commissioners who have served during this 100-year period.

The Commission is responsible for regulating 217 utility companies or entities (4 electric utilities, 1 gas, 174 telecommunications, and 38 private water and sewer companies), 4 water carriers, 73 passenger carriers and 555 property carriers in the State of Hawaii. The business of the Commission is conducted through various dockets, which serve as the repository of proceedings and information. During the Fiscal Year, a total of 561 dockets were before the Commission for review and consideration. The Commission issued 853 decisions and orders and of the 561 dockets, 346 dockets, or approximately 62 percent, were completed by the end of the Fiscal Year.

Given the State's overall desire to transform to clean energy technologies to stabilize Hawaii's economy and move towards energy independence, the majority of the Commission's time and resources are devoted to the energy sector. The high cost of energy touches every Hawaii resident and business with huge impacts. The cost of fuel and purchased power costs accounts for anywhere from 51 to 66 percent of a customer's monthly bill; therefore, driving down the cost of fuels and power purchase costs is an important objective for the Commission to achieve affordable rates for customers. The Commission approval on the Kaheawa Wind power purchase amendment (Docket No. 2011-0192) and Puna Geothermal Venture expansion and power purchase amendment (Docket No. 2011-0040) helps to this end and applauds the electric utilities' and independent power producers willingness to renegotiate existing contracts so savings can be passed on to customers.

With the completion of the MECO 2010 Test Year Rate Increase Request (Docket No. 2009-0163) and the HELCO 2010 Test Year Rate Increase Request (Docket No. 2009-0164), the Hawaiian Electric Companies are decoupled and will commence a three-year rate case cycle with annual adjustments through a rate adjustment mechanism. This was a major objective of the Hawaii Clean Energy Initiative to mitigate the impacts of distributed generation, energy efficiency and conservation on utility revenues.

In an effort to make electricity reliability and interconnection standards as transparent as possible, the Reliability Standards Working Group ("RSWG") was formed in the Feed-In-Tariff docket and continues its work in Docket No. 2011-0206 to find

solutions to integrating high penetrations of renewable energy consistent with reliability and power quality standards. It is anticipated that the RSWG will complete and submit its work product to the Commission in early 2013.

To carry out its reorganization first authorized in 2007, it was only in FY 2012 that the Commission was authorized to conduct an office space needs assessment with the Department of Accounting and General Services ("DAGS") Public works Division Planning Branch ("DAGS-PWD"). Based on DAGS-PWD's assessment and appropriate vetting of existing office space solutions, the Commission received authorization to expand and renovate its offices within its current location, the state-owned Kekuanaoa Building. The expansion and renovation is necessary prior to being able to fill all previously authorized positions. Therefore, recruitment efforts have been limited to focusing on four key reorganization positions while backfilling existing positions.

In FY 2013, the Commission continues to place a high priority on building staff resources and technical capacity, strategic planning and adaptation to meet the challenge of fulfilling its duties in a rapidly changing energy and telecommunications environment as well as the other sectors it regulates.

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Acronyms and Terms

Act 69 – Act 69, Session Laws of Hawaii 2011

Act 141 – Act 141, Session Laws of Hawaii 2004

Act 143 Report – Act 143, Session Laws of Hawaii 2006 review of PUC organization

Act 155 – Act 155, Session Laws of Hawaii 2009

Act 177 – Act 177, Session Laws of Hawaii 2007

Act 180 – Act 180, Session Laws of Hawaii 2009

Act 204 – Act 204, Session Laws of Hawaii 2011

ARRA – American Recovery and Reinvestment Act of 2009

ASA – Average Service Availability

Building – Kekuanaoa Building

CAID – Customer Average Interruption Duration

CAIDI – Customer Average Interruption Duration Index

CI – Customer Interruptions

CID – Customer Interruption Duration

CIP – Capital Improvement Project

Commission – Public Utilities Commission

Committee – One Call Center Advisory Committee

CPCN – Certificates of Public Convenience and Necessity

DAGS – Department of Accounting and General Services

DAGS-PWD – DAGS Public Works Division Planning Branch

DCA – Division of Consumer Advocacy

DOT – Department of Transportation (State of Hawaii)

DRA – Department of Regulatory Agencies

DSM – Demand-side Management

ECAC – Energy Cost Adjustment Clause

EEPS – Energy Efficiency Portfolio Standards

EPA – United States Environmental Protection Agency

ERAC – Energy Rate Adjustment Clause

ETC – Eligible Telecommunications Carrier

Evergreen – Evergreen Economics (PBF Independent Auditor)

FCC – Federal Communications Commission

FERC – Federal Energy Regulatory Commission

FIT – Feed-in Tariff

FMCSA – Federal Motor Carrier Safety Administration

Framework – Framework for Competitive Bidding

FY – Fiscal Year

GHG – Greenhouse Gas

GW – Gigawatt

HAR – Hawaii Administrative Rules

Hawaii Energy – Hawaii Energy Efficiency Program

Hawaiian Telcom – Hawaiian Telcom Inc.

HB – House Bill

HECO – Hawaiian Electric Company, Inc.

HECO Companies – HECO, HELCO and MECO

HELCO – Hawaii Electric Light Company, Inc.

HEP – Hamakua Energy Partners

HERA – Hawaii Electricity Reliability Administrator

Hono Heke – Hono Heke Corporation

HRS – Hawaii Revised Statutes

HSCCCA – Hawaii State Certified Common Carriers Association

IC Sunshine – IC Sunshine LLC

IF – Independent Facilitator

IO – Independent Observer

IRP – Integrated Resource Planning

JFA – Jim Flanagan Associates

KIUC – Kauai Island Utility Cooperative

kW – Kilowatt

kWh – Kilowatt-hour

LNG – Liquefied Natural Gas

MATS – Mercury Air Toxics Standard

McBryde – McBryde Sugar Company, Limited

MECO – Maui Electric Company, Limited

MW – Megawatt

NAAQS – National Ambient Air Quality Standards

NARUC – National Association of Regulatory Utility Commissioners

NEM – Net Energy Metering

One Call Concepts – One Call Concepts, Inc.

Pasha – Pasha Hawaii Transport Lines LLC

PBF – Public Benefits Fee

PGV – Puna Geothermal Venture

PPA – Power Purchase Agreement

PPAC – Purchased Power Adjustment Clause

PUC – Public Utilities Commission

PUD – Public Utilities Division

PY – Plan Year

RFP – Request for Proposal

RICE NESHAP – Reciprocating Internal Combustion Engine National Emission Standards for Hazardous Air Pollutants

ROI – Return on Investment

RPS – Renewable Portfolio Standards

RSWG – Reliability Standards Working Group

SAIC – Science Application International Corporation

SAID – System Average Interruption Duration

SAIDI – System Average Interruption Duration Index

SAIF – System Average Interruption Frequency

SAIFI – System Average Interruption Frequency Index

SB – Senate Bill

Sea Link – Sea Link of Hawaii, Inc.

SLH – Session Laws of Hawaii

Special Fund – Public Utilities Commission Special Fund

SPRB – Special Purpose Revenue Bonds

Telecommunications Act – Telecommunications Act of 1934 as amended in 1996

TGC – The Gas Company LLC dba Hawaii Gas

TIER – Times Interest Earned Ratio

TPA – Third Party Administrator

TWG – Technical Working Group

USC – United States Code

USF – Federal Universal Service Fund

WMTB – Western Motor Tariff Bureau, Inc.

Young Brothers – Young Brothers, Limited

ZRP – Zone of Reasonableness Program

Introduction

The Public Utilities Commission ("Commission" or "PUC") of the State of Hawaii submits this Annual Report pursuant to §269-5, Hawaii Revised Statutes ("HRS"). This report summarizes the Commission's accomplishments, states its goals and objectives and tracks data and trends in a comprehensive way. Although the statute only requires that the report cover the fiscal year from July 1, 2011 to June 30, 2012, as this is one of the few opportunities for the Commission to publicly share and shed light on the inner workings of the Commission, this report reflects the most current information where possible. Therefore, the summarization of key regulatory dockets, discussion on other proceedings before the Commission and other narratives are as of October 2012. Regulated utility reports, financial, and budget information reflect the State's fiscal year ending June 30, 2012, i.e., Fiscal Year ("FY") 2012 unless otherwise indicated.

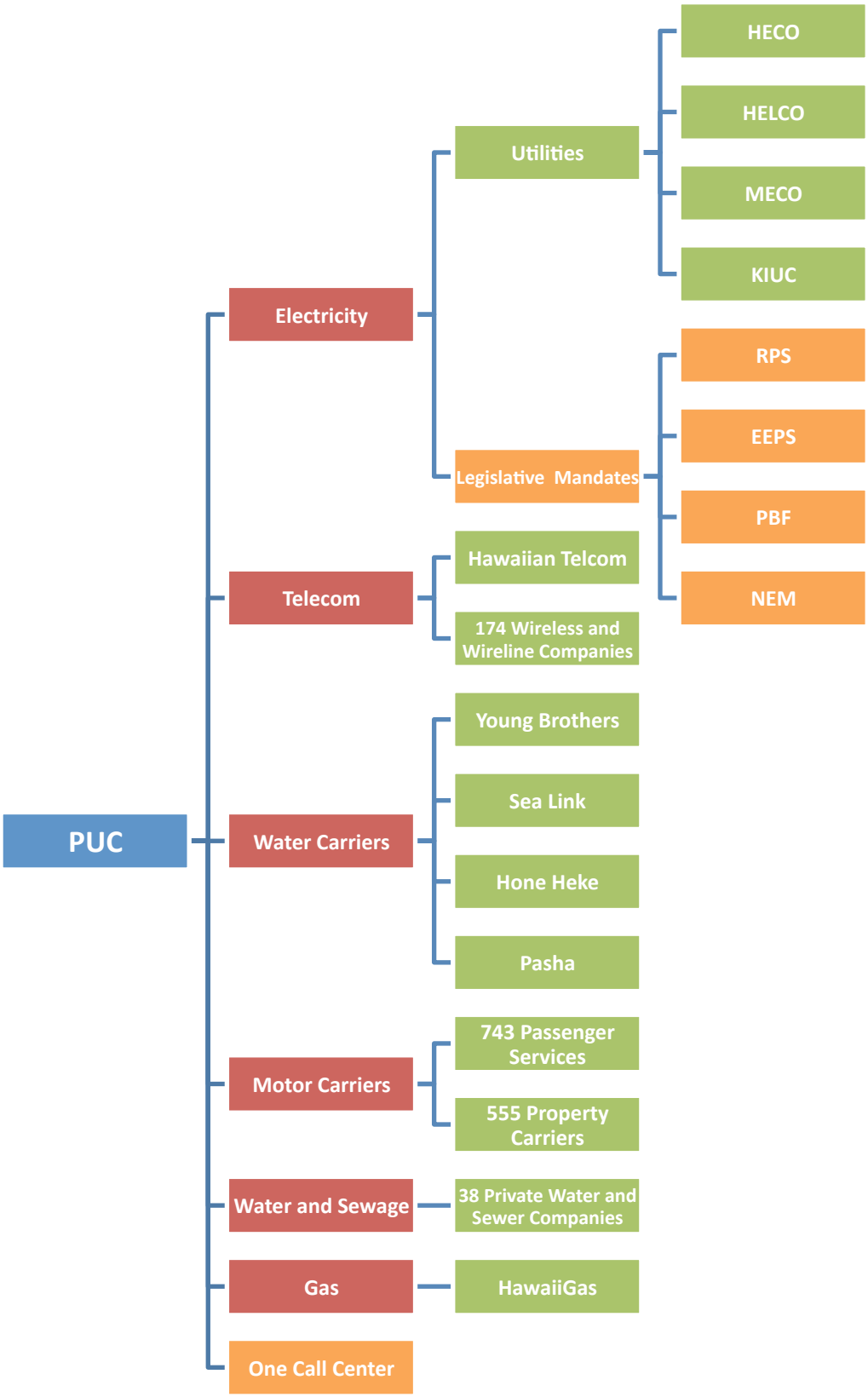
This year's Annual Report also includes a section on the history of the Commission as 2013 marks the 100th anniversary of the passage of Act 89, Session Laws of Hawaii 1913, which established the Commission.

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 (see Figure 1). The Commission has statutory authority to establish and enforce applicable state statutes, administrative rules and regulations, and to set policies and standards. It also oversees the administration of a One Call Center that provides advance warning to excavators of the location of subsurface installations in the area of an excavation in order to protect those installations from damage; and the Public Benefits Fee surcharge which is used to fund and support energy efficiency programs and services implemented by an independent third party administrator on the islands of Oahu, Maui, Molokai, Lanai and Hawaii.

Public utilities, like the customers they serve and the society and economy in which they operate, continue to undergo significant changes due to rapid developments in technology, markets, economic conditions, consumer needs and environmental concerns. The Commission acknowledges the dynamic nature of the operating environments of public utilities and thus sets as a priority the cultivation of skill sets necessary for adaptive regulatory practices and approaches within its staff and commissioners. The Commission strives to encourage regulated entities to perform and function in ways that serve the public interest in the most efficient and cost-effective manner, ultimately, providing customers with reliable services at reasonable rates.

In addition to the Commission's traditional duty to oversee and regulate public utilities to ensure the provision of essential and reliable service at just and reasonable rates, the Legislature has entrusted the Commission with increased authority and discretion in implementing the State's clean energy policies. Three major legislative mandates, the Renewable Portfolio Standards ("RPS"), the Energy Efficiency Portfolio Standards ("EEPS") and the Public Benefit Fee ("PBF") are key energy policies driving Hawaii's clean energy transformation. Given the State's overall desire to stabilize Hawaii's economy and move towards energy independence, the majority of the Commission's time and resources are devoted to this sector.

Figure1. Diagram of responsibility of the Commission



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

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

Commission History and Background

History

Organizational History

The creation of state regulatory commissions followed a national trend of moving away from regulation by means of judicial proceedings through individual lawsuits or regulation by the direct supervision of a legislature. It offered an alternative to local regulation by franchise, which is still used today, though all states have regulatory commissions. Following a model created by the federal Interstate Commerce Commission, state commissions deviate from traditional governmental organization: they are headed by a non-partisan, bipartisan, or elected plural body that operates semi-autonomously, in a quasi-judicial manner. At the time of the creation of the Hawaii Public Utilities Commission via Act 89 in 1913, about half of the states had commissions.[1]

Act 89 went into effect July 1, 1913 with three part-time commissioners appointed by the governor and confirmed by the senate for 1-, 2- and 3-year terms. Also passed in 1913, Act 127 governed the Commission's work, and jurisdiction over specific franchises were given in Acts 135, 136, and 152, subjecting these new "public utilities" to regulation previously accomplished by the Superintendent of Public Works or through judicial proceedings. Act 120 of 1913 allowed the instituting of the payment of fees by each utility for the maintenance of the Commission, with a starting fund of $5000. Using this fund, the Commission is given power to appoint and employ attorneys, clerks, stenographers, agents, engineers, accountants and other assistants and define staff's duties and compensation.

Upon the establishment of the PUC, the Commission saw the need to adopt a preliminary definition of a public utility that narrowed the scope of the work since the legislative definition[2] proved to be extremely broad. The Commission adopted the following definition: "The term public utility as defined by Section 18, Act 89, S. L. 1913, means every business which is virtually a monopoly where effective competition is not in operation and which undertakes, on a general or uniform schedule of prices, to serve all comers. The term includes all concerns doing such business whether maintained or operated by a person, firm or corporation. The term is confined to the following types of

[1]Legislative Reference Bureau. 1961. *The Hawaii Public Utilities Commission. Report No. 6.*

[2]Legislation defined a public utility as "every person, company or corporation, who or which may own, control, operate, or manage as owner, lessee, trustee, receiver, or otherwise, whether under a franchise, charter, license, articles of association, or otherwise, and plant or equipment, or any part thereof, directly or indirectly for public use, for the transportation of passengers or freight, or the conveyance or transmission of telephone or telegraph messages, or the furnishing of facilities for the transmission of intelligence by electricity by land or water or air between points within this Territory, or for the production, conveyance, transmission, delivery or furnishing of light, power, heat, cold, water, gas or oil, or for the storage or warehousing of goods."

business: transportation of passengers, transportation of freight, telephone, telegraph, wireless telegraphy, light, power, heat, cold, water, gas, oil, storage and warehouse business."[3]

Fees were set at one-twentieth of one percent of the gross income of the public utility business during the preceding calendar year. Additionally, if the public utility is a corporation whose principal business is in the territory, one-fiftieth of one percent of the par value of the entire stock issued by such corporation. In their first year of operation, the Commission required the reporting of the income from railway and transport, telephone, lighting, water, and oil companies from the previous year to begin computing and collecting the fee.[3] Some companies denied the jurisdiction of the Commission, in which case the Commission began proceedings to consider whether the company was doing a public utility business in the Territory.[3,4]

After getting organized, the Commission immediately began investigating the utilities it regulated, producing a series of investigative reports on individual utilities. These reports covered electric, telephone, gas, ice and cold storage, and interisland navigation utilities. The Commission reviewed the operations and finances of the utility under investigation, held public meetings, and pointed out improper practices and charges.[5] In addition to these investigations, the Commission's proceedings consisted of rate analyses and complaint handling and safety investigations.[6]

Not long after its creation, the public doubted the effectiveness of the Commission and critiqued the usefulness of the Commission.[4] This lead up to a reorganization in 1933 which gave way to five part-time commissioners, two from Oahu and one from each of the neighboring counties. The Commission was responsible for electric, gas, telephone, and privately owned water companies. The Commission also had authority over railroad operations and Honolulu Rapid Transit. A quorum of a majority of commissioners had to be present at all hearings and a majority of the quorum was necessary for decisions.

Statehood (August 21, 1959) decreased the Commission's autonomy greatly as the newly instituted state constitution required no more than 20 executive departments. The Commission was moved under the Department of Treasury and Regulation, which meant that the director of the Department now represented the PUC in communications with the Legislature and Governor and controlled the purchasing by the Commission. The 1961 Hawaii Administrative Procedure Act set forth the general requirement for the formulation and adoption of rules and the conduct of administrative hearings. Soon after, in 1963, the Department of Treasury and Regulation became the Department of

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[3]Public Utilities Commission. 1913. *First Annual Report of the Public Utilities Commission of Hawaii For the Year 1913.*

[4]Public Utilities Commission. 1914. *Second Annual Report of the Public Utilities Commission of Hawaii For the Year 1914.*

[5]Public Utilities Commission. *Report of Investigations of the Public Utilities Commission of Hawaii. Report No. 4-11.*

[6]Annual Reports of the Public Utilities Commission 1915-1922.

Regulatory Agencies ("DRA") and the director gained the power to employ, appoint, promote, transfer, and describe Commission staff, renaming the staff the Public Utilities Division ("PUD"). The change in the director's power over staff was done to promote efficiency in the department and to allow the director to distribute the workload; however, in effect, it divided the Commissioners and staff leading to General Order No. 1 in 1966, which prohibited any ex parte communication. The Commission gained power to hire their own attorney again in 1972 as it proved a conflict of interest for the Attorney General to represent both the Commission and the PUD given that the PUD now assisted the director of the DRA rather than the Commission. This power was gained as a result of a Supreme Court case decided in 1970 where the Commission did not side with the director of the DRA, who was using the PUD staff to present his position before the Commission and to appeal the Commission's decision to the Supreme Court. The court case, which was about telephone rates, presented a problem when both the Commission and the PUD were to be represented by the Attorney General's office. Meanwhile in 1969, the Office of Consumer Protection was created which had concurrent jurisdiction with the Department of Regulatory Agencies in matters before the Commission, creating confusion over roles and responsibilities at the Commission.[7]

In 1976, after years of debate on the effectiveness of a commission with five part-time commissioners, three of which were commuting from neighbor islands, the Commission structure changed from five part-time commissioners to three full-time commissioners, removing the neighbor island commissioner representation requirement, while establishing PUC assistant positions in the neighboring counties. Part of the reason for this change was that the neighbor islands had a majority in the Commission and the regulation of passenger carriers was a county-specific concern. The PUC was moved from the DRA (later known as the Department of Commerce and Consumer Affairs) to the Department of Budget & Finance. The director of the DRA became the consumer advocate and the PUD became the Division of Consumer Advocacy ("DCA").[8]

Regulatory Power of the Commission

As stated earlier, the Commission began by regulating businesses involved in the transportation of passengers, transportation of freight, telephone, telegraph, wireless telegraphy, light, power, heat, cold, water, gas, oil, storage and warehouse business. As technology progressed and the Commission reorganized, the regulatory authority of the Commission also evolved. Figure 2 describes some of the regulatory changes that have occurred in the history of the Commission.

In the 1930s, the regulatory oversight of the Commission began to change. The state legislature tasked the Commission with regulatory power over radio interference

[7]State of Hawaii Legislative Auditor. 1975. *Management Audit of the Public Utilities Commission of the State of Hawaii, Volume I. Report No. 75-3.*

[8]State of Hawaii Legislative Auditor. 1989. *Management Audit of the Public Utilities Commission of the State of Hawaii. Report No. 89-17.*

and thus a Radio Department was established in 1931.[9] Later in the thirties, the radio department became its own commission.[10] A Motor Vehicle Department was established in 1932 to survey the "cruising jitney bus situation" and ultimately to modify the rules and practices that regulate these modes of transportation.[11] In 1937, the Commission began hearings to issue the first certificates of public convenience and necessity ("CPCN") for buses.[12] The Commission began to regulate interisland transportation of passengers via airlines in the late thirties or 1940.[13] The Commission regulated only long-term financing matters while the fares, schedules, operations, safety and facilities were under the jurisdiction of the Civil Aeronautics Board and the Hawaii Aeronautics Commission.[14] The Commission reinforced their right to regulate airlines in a 1961 ruling.[15] The oversight of airlines lasted until 1981, when Act 167 relinquished the PUC from this duty.[8] Two other areas that the Commission used to regulate include motor carrier safety (from 1961[7] to 1977[8] then transferred to the Department of Transportation) and the gas cap, which began in 2002[16] and ended in 2006.[17]

Despite a 1965 Attorney General opinion that the PUC is empowered to regulate cable television, the 1970 Legislature created the Cable Television Division in the Department of Regulatory Agencies,[7] where it currently resides, though the DRA is now

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[9]*Nineteenth Annual Report of the Public Utilities Commission of the Territory of Hawaii for the Year Ended December 31, 1931.*

[10]"Radio Commission's Annual Report holds unit is necessary." *Honolulu Star-Bulletin*. August 18, 1939. P. 3.

[11]*Twentieth Annual Report of the Public Utilities Commission of the Territory of Hawaii for the Year Ended December 31, 1932.*

[12]"Board begins hearing over bus licenses." *Honolulu Star-Bulletin*. June 30, 1937. P.1.

[13]There is a break in reporting from the Public Utilities Commission but the Annual Report for the year 1950 indicates numbers from 1940-1949 for motor vehicle common carriers and airlines.

[14]Public Utilities Commission, Territory of Hawaii. *1958 Annual Report to the governor.*

[15]"PUC has control over airlines." *Honolulu Star-Bulletin.* December 14, 1961. 1:8.

[16]State of Hawaii Public Utilities Commission. *Annual Report Fiscal Year 2002.*

[17]Godvin, Tara. "Governor signs gas cap into History." *Honolulu Star-Bulletin.* May 6, 2006.

the DCCA. Another important legislative action clearly defining the role of the PUC occurred in 1977 with the passing of Act 102, which exempts producers of power from non-fossil fuel sources from the definition of public utility while specifying that the PUC has authority to assist in setting "just and reasonable rates" for the electricity generated from these producers when supplied to a public utility.[8]

In 1974, the regulation of private sewer companies was placed under the PUC and also was the year the Commission established a legal basis for the regulation of water carriers under the Commission.[7]

In 1987, the Commission began developing the integrated resource planning process for Hawaii utilities, resulting in the start of the first IRP process in 1990.[18] The Commission recently revised the IRP framework in 2011. The first round of IRP lead to the approval of demand-side management programs implemented by electric utilities in 1992, which then became the responsibility of a third party administrator under the guidance of the PUC in 2009 after the fee was established by legislation in 2008. The Legislature also placed renewable portfolio standards, net energy metering and the One Call Center (for subsurface excavation) under the Commission in the early twentieth century.

Landmark Developments of the Commission

In addition to organizational and regulatory changes, landmark developments changed the way the PUC operated, shaping the Commission. In 1939 the Commission hired an expert from the mainland to help to determine a rate base for HECO on its investment in its property and to determine whether rates charged by HECO are reasonable on the basis of the return which such rates yield. This was the first investigation of a Return on Investment ("ROI") of its kind of a Hawaii utility.[19] In 1965, the Commission agreed upon its first "bill of rights" for electric, gas, and telephone utility customers after months of meetings and studies. The rights included minimum standards of services and formalized some services and billing.[20]

In 2003 the Commission opened an investigation to evaluate competitive bidding as a mechanism for acquiring or building new generating capacity in Hawaii. This resulted in a competitive bidding framework in 2006 that is designed to ensure that each competitive bidding process is fair in its design and implementation so that selection is based on the merits.

As a result of rapid changes in the world of telecommunications, in 1992, the Commission began an investigation into the sole telecommunication carrier, GTE Hawaiian Tel, and opened a docket to develop a telecommunications infrastructure for Hawaii in 1993. The aim of the proceedings was to develop an efficient,

[18]State of Hawaii Public Utilities Commission. Annual Report Fiscal Year 1988.

[19]"Dittmar Here for H. E. Study" *Honolulu Star-Bulletin.* May 4, 1939. P. 12.

[20]"Consumer 'bill of rights' ready" *Honolulu Star-Bulletin.* September 29, 1965. 1:1.

cost-effective infrastructure that preserved universal service at affordable rates.[21] This docket was separated into three phases: Phase I, dealt with the competition in telecommunications services and the universal service fund; Phase II dealt with issues including unbundled rates for network elements and collocation; Phase III was a review of Verizon Hawaii's costs studies on non-recurring charges and collocation.[22]

[21]Public Utilities Commission Annual Report Fiscal Year 1993.

[22]Public Utilities Commission Annual Report Fiscal Year 2004.

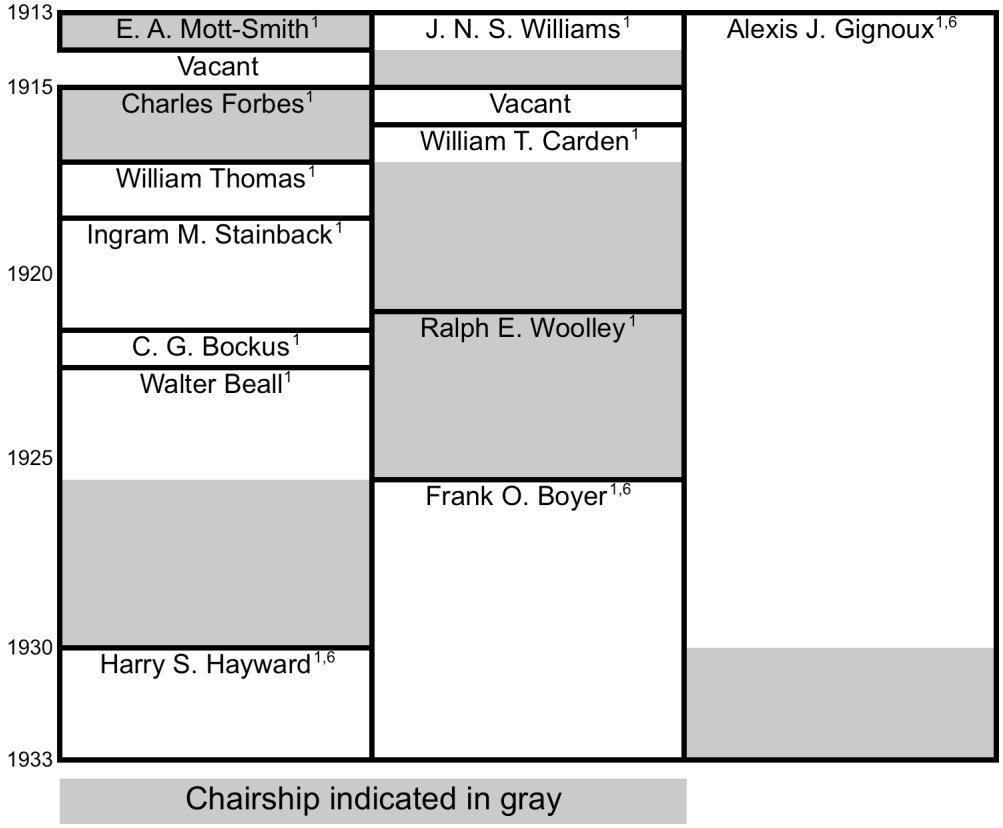
Figure 2. History of the Hawaii Public Utilities Commission

Organizational History	Regulatory Changes	Landmark Developments
1913- Public Utilities Commission founded as an independent agency of the territorial government with its own staff	**1913** – Regulation of utilities under quasi-judicial body rather than through courts and Superintendent of Public Works	
1933- Change in commissioner count from three to five part-time commissioners	**1931** – Regulation of interisland shipping companies ruled by Supreme Court is under jurisdiction of PUC	**1939** – Expert hired to determine rate base for fair ROI in utility property, giving PUC some basis to determine rates
	1937 – The PUC began issuing CPCNs for buses	
	Late 1930s – The PUC began regulating long term financing matters of interisland airlines	
1951 - Granted right to hire investigator		
1959 – Reorganization Act restricts the number of executive departments. PUC is placed under the Department of Treasury and Regulation		
1961 – General requirements for formal hearings and rulemaking established	**1961** – Motor carrier safety placed under the jurisdiction of PUC by legislature. PUC rules that it has right to regulate air transportation between islands	
1963 – Department of Treasury and Regulation becomes Department of Regulatory Agencies, Commission staff becomes Public Utilities Division and serves the Director		**1965** – Minimum standards of service for electric, gas, phone utilities go into effect
		1966 – General Order No. 1 issued prohibiting ex parte communication
1969 – Creation of the Office of Consumer Protection	**1970** – Cable TV put under Cable Television Division in the DRA, with the potential to be moved to the PUC	**1970** – Telephone company decision issued with PUD acting on behalf of the director of Regulatory Agencies
1972 – PUC able to hire an attorney for the commission rather than using the AG as the attorney	**1974** – Private sewer companies added	
1976 – 3 full-time commissioners serving 6-year overlapping terms. PUC moves from the DRA to Department of Budget and Finance. PUD becomes DCA and PUC hires commission staff	**1977** – Exempts producers of Non-Fossil power from definition of the pubic utility but PUC has oversight of rates. Motor Carrier Safety transferred to DOT	
	1981 – Eliminated regulation of aerial transportation enterprises	**1987** – Start of creation of IRP process by the PUC; Supreme Court decision over apportioned costs for inter- and intra-state telecom
1994 – Reestablishment of the PUC special fund for the operation of the PUC and DCA	**2001** – RPS and NEM legislation passed	**1993** – Plan to establish telecommunications framework for Hawaii
	2002 – Gas cap legislation passed, repealed 2006	
2007 – PUC reorganization approved by legislature, pending implementation	**2004** – One Call center established, RPS set	**2003** – Competitive bidding framework for new generation
	2008 – EEPS and PBF established	

Commissioners

In the past one hundred years, the Commission has gone through two major changes in structure and many different commissioners. The following three-part figure lists the commissioners in each of the three phases of membership. If information was found about a commissioners' background, this is also listed. Today, the commission is a full-time body comprised of three commissioners, each serving six-year terms on a staggered basis. The Governor, with the consent of the State Senate, appoints the commissioners, a process that has been continued since 1913.

Figure 3a. Commissioners: 1913-33. Three part-time members



Citations for Figures 3a-3c.

[1] State of Hawaii Public Utilities Commission. Annual Report. 1913-1932, 1985-current.
[2] Hawaiian Annual. Honolulu: Printshop Company, 1933-1940; Honolulu Star Bulletin: 1941-1945
[3] Legislative Reference Bureau. The Hawaii Public Utilities Commission. Report No. 6. 1961.
[4] Legislative Reference Bureau. Directory of State, County, and Federal Officials.
[5] Journal of the Senate of the Legislature of the State of Hawaii.
[6] "Utilities unit ends service to Territory." *Honolulu Star-Bulletin*. May 4, 1933 p.3.
[7] "New utilities board named by Governor." *Honolulu Star-Bulletin*. May 15, 1933 p.1.
[8] "Geo N. Voorhees takes place of S. Kemp." *Honolulu Star-Bulletin*. February 11, 1937 p. 6.
[9] " Hobby quits as member of board." *Honolulu Star-Bulletin*. January 31, 1940 p. 3.
[10] "Williams quits board." *Honolulu Advertiser*. May 22, 1942 p.1.
[11] Honolulu Advertiser. January 20, 1972. A10:1.
[12] Internal personnel files of the Hawaii Public Utilities Commission.

Figure 3b. Commissioners: 1933-76. Five part-time members, neighbor islands represented

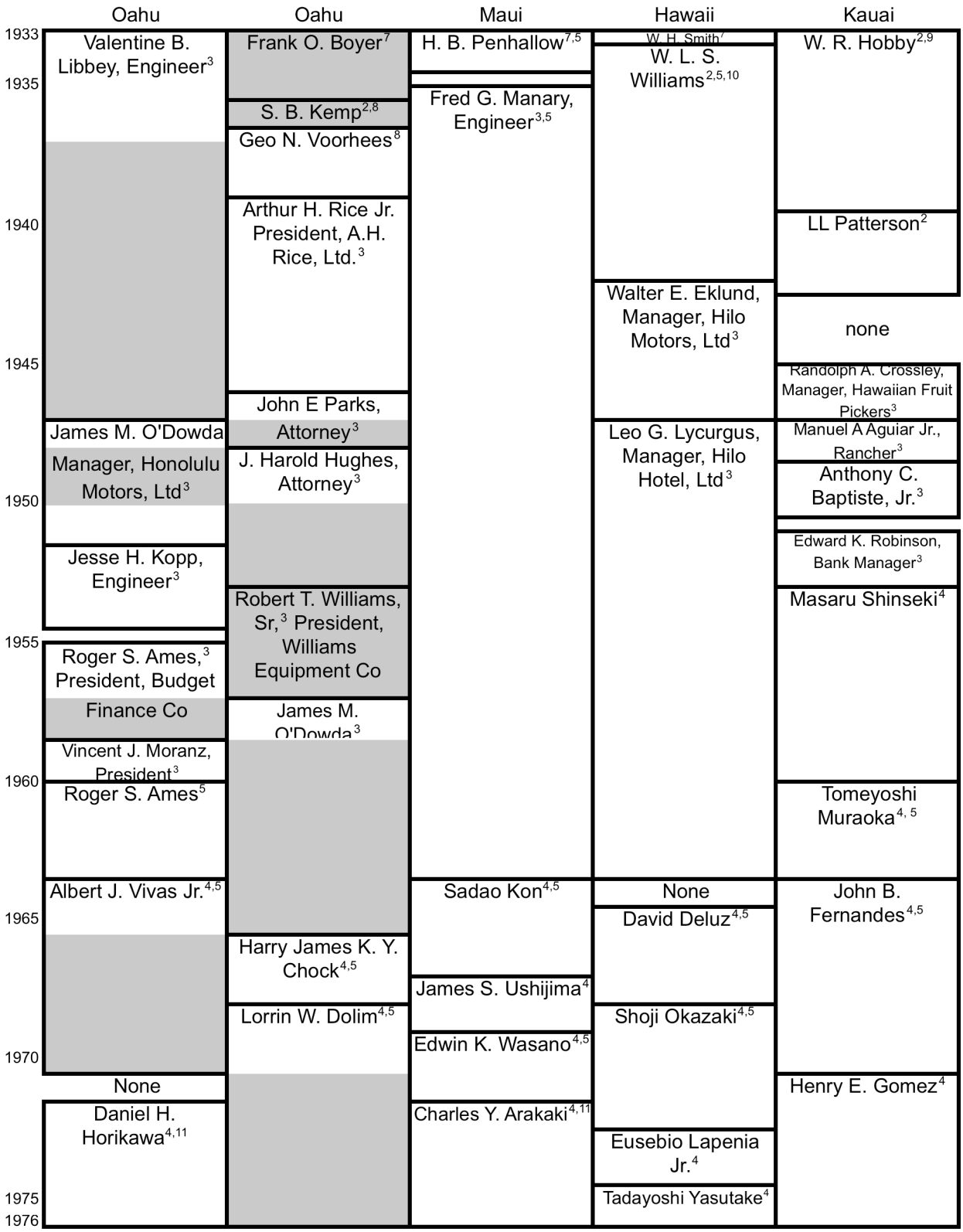
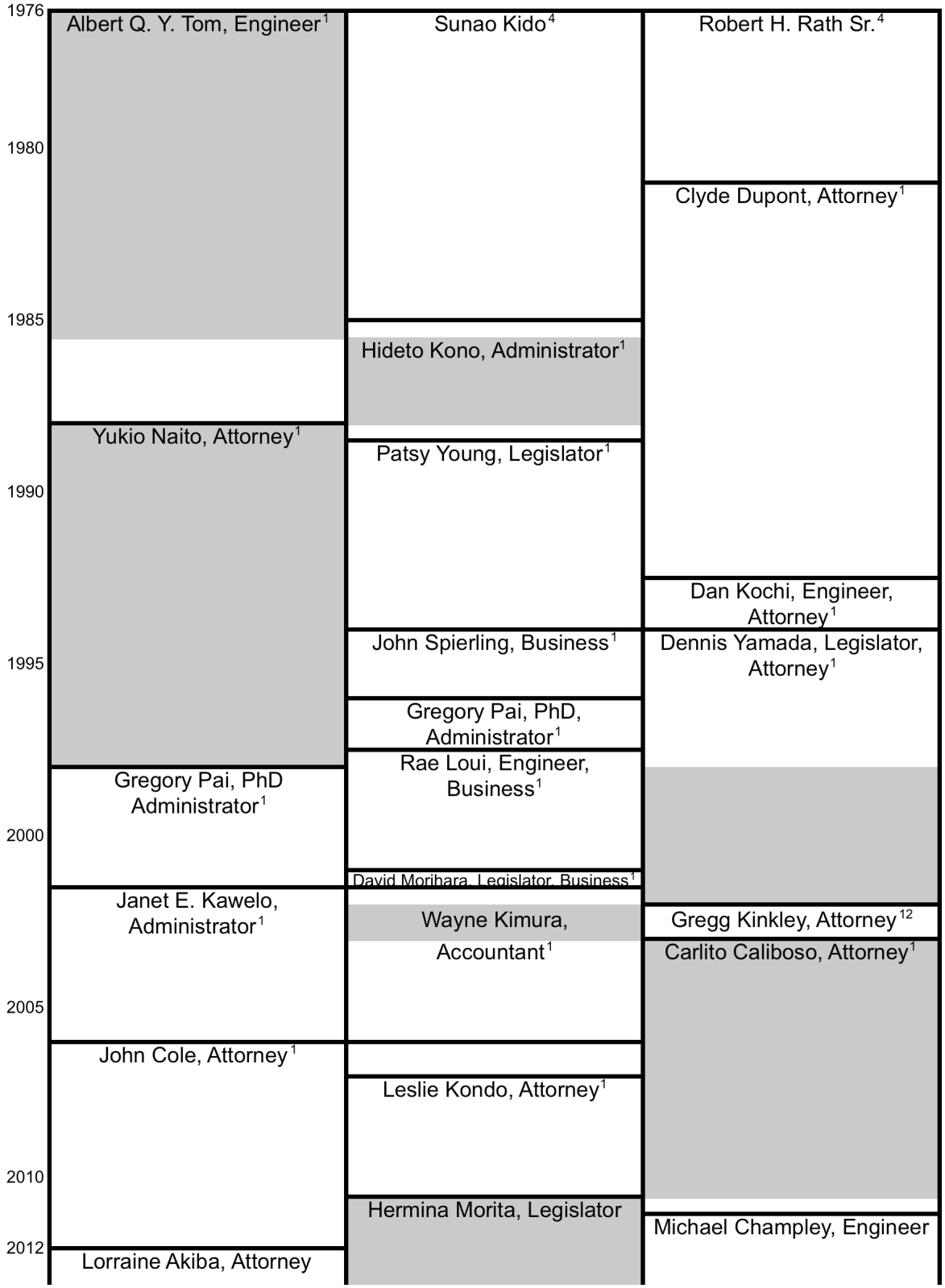


Figure 3c. Commissioners: 1976-current. Three full-time members



Hermina Morita, Chair

Hermina Morita was appointed to the Public Utilities Commission and named Chair of the Commission on February 3, 2011 by Governor Neil Abercrombie for a term to expire on June 30, 2014.

Upon her confirmation on March 14, 2011, Chair Morita resigned from her position in the State of Hawaii House of Representatives, where she served as a Legislator for fifteen years, thirteen of which as the Chair of the House Energy & Environmental Protection Committee. Prior to her experience as a Legislator, Chair Morita worked as a business manager in the retail, construction and visitor industries. She also served on the Kauai Planning Commission and Kauai Police Commission. She was born and raised on Lanai and currently resides on Kauai.

John E. Cole, Commissioner[23]

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

Prior to his appointment, Commissioner Cole served as Executive Director of the Division of Consumer Advocacy of the Hawaii State Department of Commerce and Consumer Affairs. In May 2005, Commissioner Cole was appointed as a member of the FCC's Consumer Advisory Committee to advise the FCC on consumer issues within the FCC's jurisdiction and to facilitate the participation of consumers in proceedings before the FCC. He is also a member of the National Association of Regulatory Utility Commissioners ("NARUC") and serves on NARUC's Committee on Energy Resources and the Environment, and the Committee on Consumer Affairs. In 2010, Commissioner Cole accepted an invitation to participate in the State Energy Efficiency Action Network working group on Customer Information and Behavior.

Commissioner Cole earned a bachelor's degree in biology from UH-Manoa and a law degree from Washington University School of Law.

[23]Commissioner Lorraine Akiba was appointed to replace Commissioner Cole for the term of July 1, 2012-June 30, 2018.

Michael E. Champley, Commissioner[24]

Michael E. Champley was appointed to the Commission on September 15, 2011 by Governor Neil Abercrombie for a term to expire on June 30, 2016. Commissioner Champley has over 40 years of experience analyzing, integrating and managing complex economic, public policy and technical issues confronting the energy utility industry. Prior to his appointment, Commissioner Champley was a Maui-based senior energy consultant focused on clean energy resource integration in Hawaii.

Before relocating to Hawaii, Commissioner Champley was a senior executive with DTE Energy, a major electric and gas energy company where he held various executive positions including Senior Vice President-Regulatory Affairs and Senior Vice President-Power Supply. He holds a Bachelor of Science in Electrical Engineering from the University of Dayton and a Master of Business Administration from Indiana University, with emphasis in Finance and Public Utility Economics and Regulation.

[24]Commissioner Champley was appointed to the Commission after Commissioner Carlito P. Caliboso resigned on September 1, 2011.

Administration and Offices

The Commission is comprised of three commissioners and, as of June 30, 2012, a staff of 38 employees. These employees include an administrative director, attorneys, engineers, auditors, researchers, investigators, neighbor island representatives for Kauai, Maui County and Hawaii, documentation staff, and clerical staff. The Commission has four offices located throughout the State:

OAHU: Public Utilities Commission
Kekuanaoa Building
465 South King Street, #103
Honolulu, HI 96813
Phone: (808) 586-2020
Fax: (808) 586-2066

KAUAI: PUC Kauai District Office
3060 Eiwa Street, #302-C
Lihue, HI 96766
Phone: (808) 274-3232
Fax: (808) 274-3233

MAUI: PUC Maui District Office
State Office Building #1
54 S. High Street, #218
Wailuku, HI 96793
Phone: (808) 984-8182
Fax: (808) 984-8183

HAWAII: PUC Hawaii District Office
688 Kinoole Street, #106-A
Hilo, HI 96720
Phone: (808) 974-4533
Fax: (808) 974-4534

Email: Hawaii.PUC@hawaii.gov

Web: www.hawaii.gov/budget/puc/

For administrative purposes, the Commission is placed under the Department of Budget and Finance.[25]

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

Goals and Objectives of the Commission

Primary Purpose

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

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 in promoting and protecting the public interest.

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

- Promote and encourage efficient and reliable production and delivery of all utility services. Promote and encourage efficient and reliable electricity generation, transmission and distribution.

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

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

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.

Administrative Update

In response to Act 143, Session Laws of Hawaii 2006, the Commission conducted an in-depth review of its organization ("Act 143 Report") to develop a comprehensive plan to restructure and supplement the Commission and its resources to function more effectively and efficiently in light of, among other matters, changing regulatory conditions, duties, and requirements, and advances in technology. Recognizing the need for progressive energy policy-making at the state level, the Legislature enacted Act 177, SLH 2007 ("Act 177") in accordance with Part IV of the Act 143 Report. Act 177 also authorized the required relocation of the Commission's Oahu office.

Since the enactment of Act 177, the Commission has experienced several resource (staffing and funding) authorization shortfalls, which hindered its ability to acquire additional office space. Fortunately, however, in FY 2012, the Commission was appropriated funding for all reorganization positions pursuant to Act 177, increasing the Commission's total full-time, permanent position count to 62; and authorized to conduct an office space needs assessment with the Department of Accounting and General Services ("DAGS") Public Works Division Planning Branch ("DAGS-PWD"). Based on DAGS-PWD's assessment and appropriate vetting of existing office space solutions, the Commission received authorization to expand and renovate its offices within our current location, the State-owned Kekuanaoa building ("Building") and commenced implementation of our Oahu office expansion project in FY 2012.

Due to space restrictions, the Commission was required to prioritize FY 2012 recruitment efforts to focus on four key reorganization positions while backfilling existing positions. During FY 2012, the Commission was able to recruit and fill the following positions:

- 2 PUC Attorneys;
- 2 Commissioners (appointed by the Governor; confirmed by the Senate);
- 3 Research Assistants;
- 1 Office Assistant IV (internal promotion);
- 3 Office Assistant IIIs;
- 1 Secretary II (internal promotion); and
- 1 Information Technology Specialist IV.

Additionally, as of November 2012, five months into FY 2013, the Commission is actively recruiting for and expects to fill seven priority staff positions by the end of FY 2013.

In FY 2012, the Commission's American Recovery and Reinvestment Act of 2009 ("ARRA") grant allowed for the staffing of two temporary positions and fourteen electricity-related training opportunities. Commission staff, through these training opportunities, increased their technical knowledge specifically in the evolving electricity industry and were fortunate to be trained by experts from entities such as the National Association of Regulatory Utility Commissioners, New Mexico State University's Center for Public Utilities, National Regulatory Research Institute, United States Department of Energy, Michigan State University Institute of Public Utilities, National Renewable Energy Laboratory, and Sandia National Laboratories, among others.

In FY 2013, the Commission continues to place a high priority on building staff resources and technical capacity, strategic planning, and expanding and modernizing Commission office spaces. The Commission also continues its work on improving accessibility by improving the efficiency of the Commission's current document filing system, as required by Act 69, Session Laws of Hawaii 2011 ("Act 69"). Act 69 requires the Commission to accept all required filings in either original or electronic form no later than July 2013.

Pursuant to Act 69, the Commission submitted a report to the Legislature regarding the progress of implementing an electronic filing system in December 2011, which included the following eFile project plan with target dates.

Table 1. eFile project phases

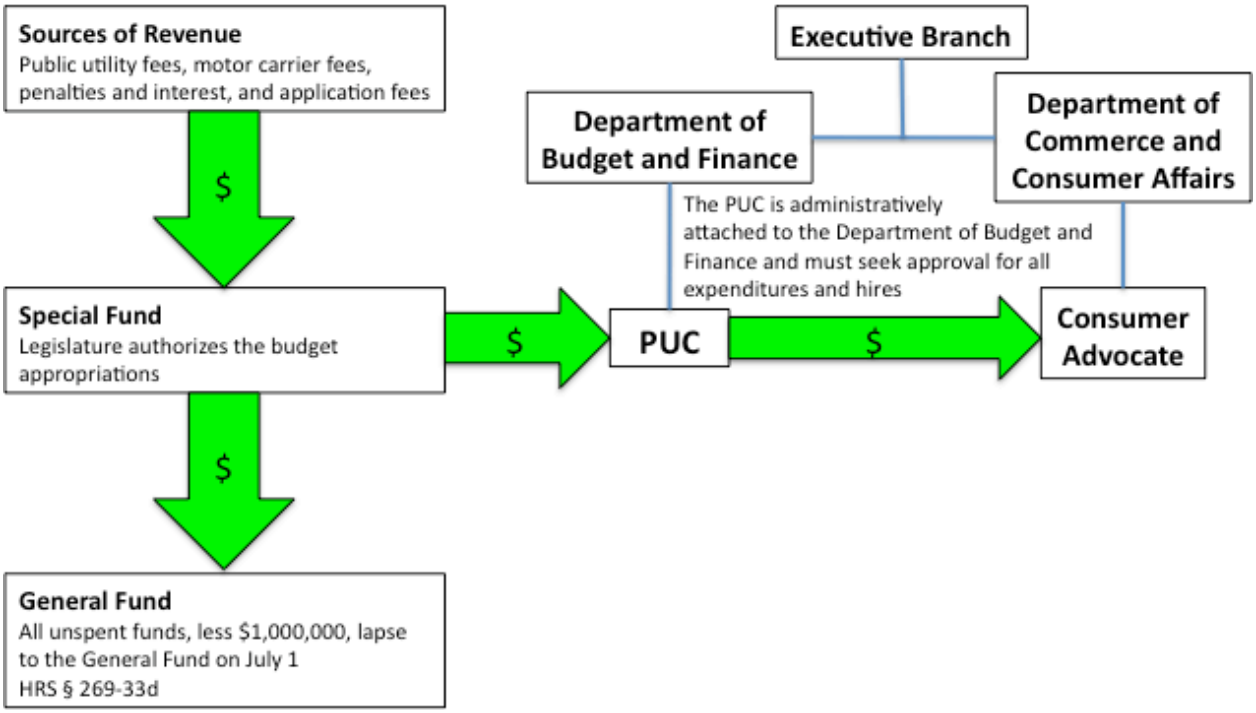
Phase No.	Description	Target Completion Date
I	Project Review and Resource Acquisition	February 29, 2012
II	Project Design/Development and Integration of Related Program Enhancements	December 31, 2012
III	Internal Implementation and Testing	March 1, 2013
IV	External Soft Testing	April 30, 2013
V	Full System Implementation/Rollout	July 1, 2013

As of December 1, 2012, the Commission has successfully completed phases I and II and is on track to complete phases III, IV, and V on or before the target completion dates.

Fiscal Information

The Public Utilities Commission Special Fund ("Special Fund"), established under HRS § 269-33, is used to cover all Commission and Consumer Advocate expenses incurred in the administration of Chapters 269, 271, 271G, 269E and 486J, HRS. The Special Fund sources of income include public utility fees, motor carrier fees, penalties and interest, application and intervention filing fees, Hawaii One Call Center fees and duplication fees from entities under its jurisdiction pursuant to Section 269-30, HRS. The public utility fees, which typically comprise over 90 percent of the Special Fund's revenues, are based on the entities' gross income from the preceding year and may be recovered via a surcharge from the entities' customers, i.e., ratepayers.

Figure 4. Revenue flow and overview of organization of the PUC

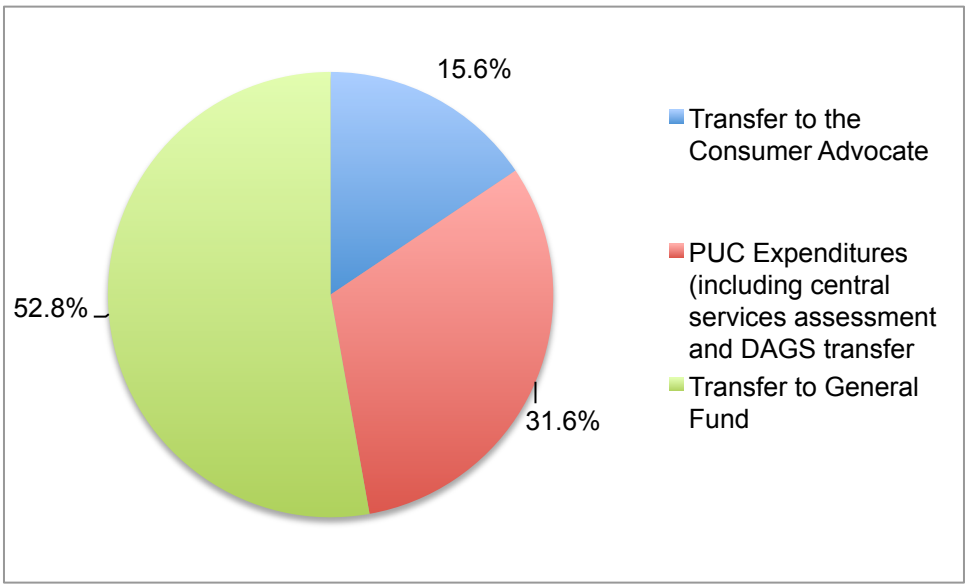


In Fiscal Year 2012, the regulated utilities and transportation carriers paid $17,809,902 in public utility fees and $1,344,118 motor carrier fees, respectively. The total revenues of the Commission's Special Fund were $19,270,946.

In Fiscal Year 2012, the Commission received an appropriation of $11,049,709 for personnel services and other current expenses. Allotments for the Commission's personnel services expenses and other current expenses were $4,617,052, and $6,432,357, respectively. The Commission's other current expenses allotment included $3,003,599 that was transferred to the Consumer Advocate to cover its operating expenses and $951,573 that was transferred to DAGS Central Services Division pursuant to Section 36-37, HRS.

Pursuant to HRS § 269-33, 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. In Fiscal Year 2012, an excess balance of $10,175,778 from the Special Fund was transferred to the general fund. This excess balance amount includes the balance of the moneys appropriated through Act 164, SLH 2011 (2011 Appropriations Act).

Figure 5. PUC Special Fund FY2012 total expenditures and transfers



Legislative Mandates

In addition to the regulatory proceedings held by the Commission, the Hawaii State Legislature also tasks the Commission with governance over certain policies in statute that relate to areas under the Commission's oversight. Though these change as the statutes are amended, previous examples of this include the gasoline price cap and Petroleum Industry Monitoring Analysis and Reporting. Currently, the Commission oversees the state's Renewable Portfolio Standards, Energy Efficiency Portfolio Standards, the Public Benefits Fee, and the One Call Center. The 2012 legislative session also added the Hawaii Electricity Reliability Administrator to the oversight of the Commission—for more information on this, please see the Legislation section of this report.

Renewable Portfolio Standards

In 2006, the Legislature revised HRS §§ 269-91 to 269-95, Hawaii Renewable Portfolio Standards, authorizing the Commission to establish and issue penalties against electric utility companies who fail to meet the Renewable Portfolio Standards ("RPS") of 10 percent of new electricity sales by December 31, 2010; 15 percent by December 31, 2015; and 20 percent by December 31, 2020. Consequently, the Commission opened an investigation (Docket No. 2007-0008) to examine the appropriate penalty framework for non-compliance with the RPS. The Commission released a framework, which includes a requirement that each electric utility shall annually file an Annual RPS report with the Commission.

In December 2008, the Commission approved a penalty of $20 for every megawatt-hour ("MWh") that an electric utility is deficient under Hawaii's RPS Law. In the Commission's discretion, this penalty may be reduced based on the factors listed in HRS § 269-92(d) and in the RPS Framework, Section III.C.5. Any RPS penalties assessed against the HECO Companies for failure to meet the RPS shall go into the account established for the public benefits fees and shall not be recovered through rates. Any RPS penalties assessed against Kauai Island Utility Cooperative ("KIUC") shall be paid into the Commission's special fund and may be recovered from its members or ratepayers. The current RPS Law, which became effective on July 1, 2009, will not allow the electrical energy savings from energy efficiency and solar water heating technologies to count towards the RPS from January 1, 2015 (the 2015 RPS target is 15 percent, the 2020 RPS target is 25 percent, and the 2030 RPS target is 40 percent).

Table 2. 2011 Renewable Portfolio Standard Status (Net MWh)

	HECO*	HELCO*	MECO*	KIUC**	Total
Electrical Energy Generated Using Renewable Energy Sources					
Biomass (including MSW)	321,689		43,577		365,266
Geothermal		232,906			232,906
Photovoltaic[1]	202	76	1,891	1,468	3,637
Hydro[1]		45,300	6,206	38,919	90,425
Wind[1]	64,024	157,329	123,023		344,376
Biofuels	44,722		14,532		59,254
Subtotal	430,637	435,611	189,229	40,387	1,095,864
Electrical Energy Savings Using Renewable Displacement Technologies and DSM					
Customer-Sited	54,189	17,738	13,041	7,962	92,930
Solar Water Heating[2]	129,314	20,678	30,181	18264ˇ	198,437
Energy Efficiency Technologies[2]	821,136	76,622	111,306	see above	1,009,064
Subtotal	1,004,639	115,038	154,528	26,226	1,300,431
Total	**1,435,276**	**550,649**	**343,757**	**66,613**	**2,396,295**
Total Sales	**7,242,311**	**1,103,572**	**1,181,026**	**460,971**	**9,987,880**
RPS percentage	**19.8%**	**49.9%**	**29.1%**	**14.5%**	**24.0%**
*From the HECO Companies' 2011 Renewable Portfolio Standard Status report for the year ending on December 31, 2011.					
**From the KIUC Annual RPS Status Report for the year ending December 31, 2011.					
ˇIncludes both solar water heating and energy efficiency technologies.					
[1]Based on recorded data from Independent Power Producers with Power Purchase Agreements.					
[2]Based on rebates paid and estimated savings per system or measure.					

Table 3. Power Purchase Agreements approved since July 1, 2011

Island	Party	Size	Technology	Docket No.
Oahu	IC Sunshine	5 MW	Photovoltaic	2011-0015
Oahu	Kalaeloa Solar Two	5 MW	Photovoltaic	2011-0051
Oahu	Kapolei Sustainable Energy Park	1 MW	Photovoltaic	2011-0185
Oahu	Kawailoa Wind	69 MW	Wind	2011-0224
Hawaii	Puna Geothermal Expansion	8 MW	Geothermal	2011-0040
Kauai	McBryde Sugar Company	6 MW	Photovoltaic	2011-0180
Kauai	Poipu Solar	3 MW	Photovoltaic	2010-0037
Kauai	Green Energy Team	6.7 MW	Biomass	2011-0032
	Total:	103.7 MW		

Table 4. Power Purchase Agreements pending before the Commission as of October 2012

Island	Party	Size	Technology	Docket No.
Oahu	Kalaeloa Renewable Energy Park	5 MW	Photovoltaic	2011-0384
Oahu	H-Power Expansion	27 MW	Municipal Solid Waste	2012-0129
Hawaii	Hu Honua Bioenergy	21.5 MW	Biomass	2012-0212
Kauai	MP2 Hawaii Solar I	0.3 MW	Photovoltaic	2011-0362
	Total:	53.8 MW		

Table 5. Fuel supply contracts at the Commission

Island	Party	Amount (M Gal)	Term	Fuel
Renewable Fuel Contracts Approved Since July 1, 2011				
Oahu	Renewable Energy Group Marketing and Logistics	3-7	3 years	Biodiesel
Renewable Fuel Contracts Pending before the Commission as of October 2012				
Oahu	Pacific Biodiesel	250K-1	3 years	Biodiesel
Oahu	Hawaii BioEnergy	10	20 years	Biofuel
Hawaii	Aina Koa Pono-Kau	16	20 years	Biodiesel

Net Energy Metering

In 2001, Hawaii first enacted a Net Energy Metering law that is codified as HRS §§ 269-101 through 269-111. The purpose of NEM is to allow electric utility customers with personal electric generation capacity to feed excess energy back to electric utilities. The statute originally set the individual system maximum at 50 kW (HRS § 269-101.5) and the maximum for all customer-generators in a service area at 0.5 percent of system peak demand (HRS § 269-104), giving the Commission the ability to increase these maximums by rule or order. The Commission increased the maximum size limit for an individual system to 100 kW with pilot programs for systems up to 500 kW or larger if technically and economically reasonable and practicable, removed the system cap, and instituted a flexible per-circuit cap at 15 percent, in Docket No. 2006-0084. Docket No. 2010-0015 changed the trigger for interconnection studies when at the per-circuit cap.

Table 6. NEM Status as of December 31, 2011

Utility	# of Installations	Installed kW
HECO*	3,424	18,518
HELCO*	1,649	10,243
MECO*	1,962	12,563
KIUC**	166	784
Total	7,201	42,108

*From the HECO Companies 2011 NEM Status Report

**From the KIUC 2011 Annual NEM Program Summary

Energy Efficiency Portfolio Standards

In March 2010, the Commission instituted an investigation in Docket No. 2010-0037 to examine the establishment of energy efficiency portfolio standards ("EEPS") for the State of Hawaii, pursuant to Act 155, Session Laws of Hawaii ("SLH") 2009 ("Act 155") and HRS § 269-96. Act 155 requires, among other things, that the Commission establish EEPS "designed to achieve four thousand three hundred Gigawatt hours of electricity use reductions statewide by 2030; provided that the Commission shall establish interim goals for electricity use reduction to be achieved by 2015, 2020, and 2025 and may also adjust the 2030 standard by rule or order to maximize cost-effective energy-efficiency programs and technologies."

This docket resulted in a Framework for Energy Efficiency Portfolio Standards, which establishes EEPS interim goals that will set the course for achieving the 2030 standard set in the HRS. The Framework establishes a Technical Working Group ("TWG") that will represent Commission-regulated and non-regulated entities in the EEPS reporting process. On February 17, 2012 the Commission named members of the EEPS TWG.

Public Benefits Fee

HRS Chapter 269, Part VII, pertaining to Hawaii's Public Benefits Fee ("PBF"), authorizes the Commission to contract with a third party administrator ("TPA") to implement and manage energy efficiency programs in the State of Hawaii. On March 3, 2009, following a competitively bid selection process, the Commission selected Science Applications International Corporation ("SAIC") to serve as the TPA of energy efficiency programs within the HECO Companies' service territories. SAIC began administering the Hawaii Energy Efficiency Program ("Hawaii Energy") on July 1, 2009 and later transferred its program responsibilities to its subsidiary, R.W. Beck.

As part of the PBF implementation process, the Commission also selected Bank of Hawaii as the Fiscal Agent; James Flanagan Associates ("JFA") as the Contract Manager; Accuity LLP as the independent auditor; and Economic Consultants Oregon Ltd., dba ECONorthwest as the independent evaluator of Hawaii Energy's programs.

In 2011, ECONorthwest's contract was transferred to Evergreen Economics ("Evergreen").

In 2009, the Commission set the initial PBF surcharge amount for 2009 and 2010 at 1.0 percent of the projected total electric revenue of the HECO Companies, plus revenue taxes. In 2011, the Commission increased the PBF surcharge to 1.5 percent of the HECO Companies' projected total electric revenue, plus revenue taxes. The increase in the surcharge follows the timing in the agreement between the HECO companies and the Consumer Advocate.[26] This increase in the collection percentage was accompanied by an increase in the program year budget for Hawaii Energy, from $21,223,458 in Plan Year ("PY") 2010 to $32,138,390 in PY 2011. The Commission established the PBF two-year budget for Program Years 2011 and 2012 at $71,103,608.

During this past fiscal year, the Commission also awarded SAIC its performance award of $509,215 for PY 2010. This performance award is awarded based on meeting specified targets in the areas of residential and business energy savings, peak demand savings, total resource benefit, market transformation, and island equity for the program year. The numbers reported by SAIC are verified after the completion of the plan year by the independent evaluator, Evergreen.

As of June 30, 2012, Hawaii Energy completed its third program year, PY 2011. Preliminary Results of the PY 2011 are presented below, subject to Evergreen's independent review. This Plan Year, Hawaii Energy continued to refine their incentive program, adding new efforts in market transformation, adjusting the budget so that the business incentive program received more focus and more of the overall budget, and modifying the residential market incentives to make them more effective. Hawaii Energy continues to operate at about a 70 percent pass through of PBF collections to ratepayers through incentives. The remaining 30 percent is used for outreach, time and materials (see Table 7, Total Non-Incentives Billed), and supporting services, including administrative services. Additional information may be found on the Hawaii Energy website at www.hawaiienergy.com.

[26]Order filed December 15, 2008 in Docket No. 2007-0323.

Table 7. Hawaii Energy PY 2011 preliminary results

Key Performance Metrics	PY 2011 Results	PY 2011 Targets	% of Target PY 2011
Annual Energy Savings Impacts (Net Generation Level)			
Residential (MWh)	53,752	64,015	84%
Business (MWh)	62,351	44,485	140%
Peak Demand (kW)	16,205	16,401	99%
Total Resource Benefit	$113,409,478	$116,230,842	98%
Island Equity (% Incentives Paid)			
Oahu	$12,421,827	$16,507,381	75%
Maui County	$2,075,114	$2,889,472	72%
Hawaii County	$2,618,460	$2,772,025	94%
Market Transformation Infrastructure Development			
Government Support Milestones	5	4	125%
Education and Training Milestones	4	4	100%
Financials			
Total Non-Incentives Billed[1]	$8,611,421.71	$9,969,511.00	86%
Total Residential and Business Incentives Billed	$15,285,711.30	$19,974,424.00	76%
Total Transformation Program Billed	$1,844,693.00	$2,194,455.00	84%
Total Program Costs Billed	$25,741,826.01	$32,138,390.00	80%

[1]Total Non Incentive Billed reflect the deduction of performance incentive fees for the award pool
Source: Hawaii Energy Monthly Performance Report – June 2012.

One Call Center

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

The Hawaii One Call Center serves as an efficient facilitator of communication between excavators and facilities with subsurface installations. An excavator calls the Hawaii One Call Center to schedule an excavation, which generates a ticket request. The ticket provides an identification number for reference, the excavator's name, the excavation site and other pertinent information to the Hawaii One Call Center. Facility operators in the area of excavation are then notified, and within five (5) working days of

that notification, the facility operator must provide either (1) an indication that the facility operator in the proposed excavation site does not have any subsurface installations that may be affected by the excavation, (2) an indication that the area of excavation could be affected, (3) an indication that the facility operator's records of the subsurface installations are publicly available to the excavator, or (4) a representative to locate and field mark in accordance with the American Public Works Association Color Code the approximate location of the subsurface installation. The facility operator promptly notifies the Hawaii One Call Center that the facility operator has fulfilled at least one of the four requirements, and the Hawaii One Call Center promptly provides notice to excavators that the facility operators have complied.

In November 2005, the Commission selected and contracted with One Call Concepts, Inc. ("One Call Concepts") as the exclusive provider for the administration and operation of the Hawaii One Call Center, commencing December 1, 2005 through June 30, 2009. One Call Concepts provides one call services for one call centers in Minnesota, Kansas, Louisiana, Missouri, Oregon and Washington and has been providing one call center services since its formation in 1982. In January 2006, pursuant to HRS Chapter 269E, the Commission, through One Call Concepts, began operations of the One Call Center. On May 26, 2009, Governor Linda Lingle signed House Bill ("H.B.") No. 1059, H.D.2, S.D.1 into law as Act 72, which changed the status of the State One Call Center program from a pilot program to a permanent program. Shortly thereafter, the Commission entered into a formal extension of the One Call Concepts, Inc., contract for operation of the One Call Center through June 30, 2011. On January 19, 2011, the Commission issued a Request for Proposal ("RFP") to contract for the future operation of the Hawaii One Call Center. On April 20, 2011, One Call Concepts was awarded as the exclusive provider for the administration and operation of the Hawaii One Call Center from July 1, 2011 to June 30, 2014.

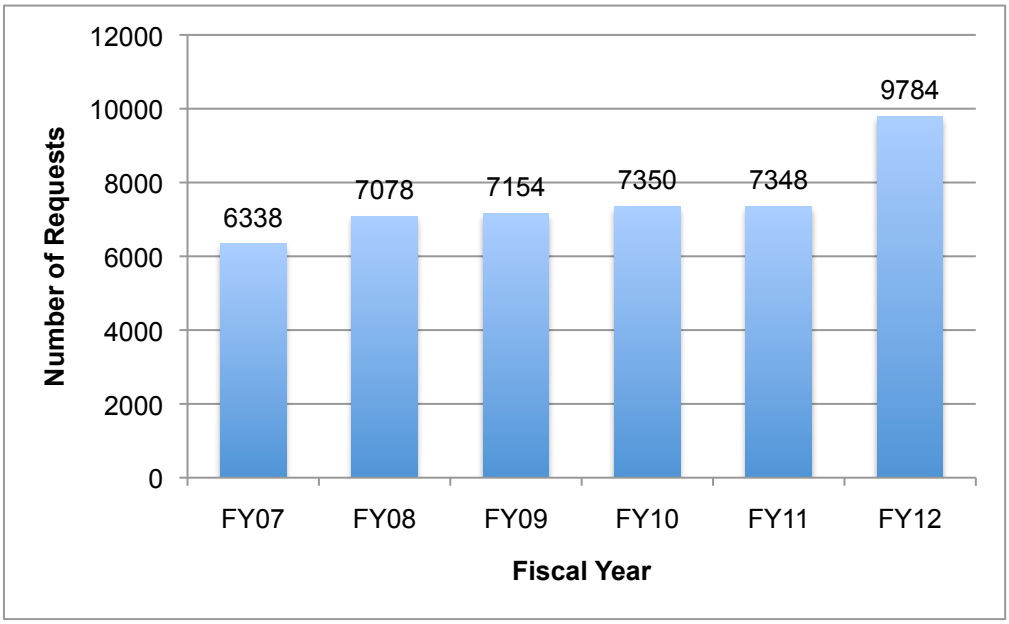
The Committee was established by the Commission under Chapter 269E, HRS to advise the Commission in implementing the One Call Center. The Committee consists of 18 members appointed by the Commission from various sectors of the utility industry and government. In the FY 2012, the Advisory Committee held quarterly meetings to deliberate on a variety of issues regarding the One Call Center. In November 2011 and May 2012, the One Call Concepts held training seminars on Oahu, Maui, Kauai and the Island of Hawaii. The training seminars educated participants in the many facets of the One Call Center law including notification of excavation, marking of excavation sites, identification of subsurface installations by operator, excavation procedures and more. There were approximately 200 participants who attended the training seminars.

On January 23, 2012, Governor Neil Abercrombie approved Chapter 83, Hawaii Administrative Rules entitled "Hawaii One Call Center Subsurface Installation Damage Prevention Program." Under the authority of the One Call Center law and the Hawaii One Call Center Subsurface Installation Damage Prevention Program administrative rules, the Commission is currently creating the "One Call Enforcement and Compliance Program" to ensure excavators and operators properly comply with Hawaii's One Call laws and rules.

On June 29, 2012, Governor Abercrombie adopted Act 196, SLH 2012, which exempts the excavation activities of pest control operators from Chapter 269E, HRS,

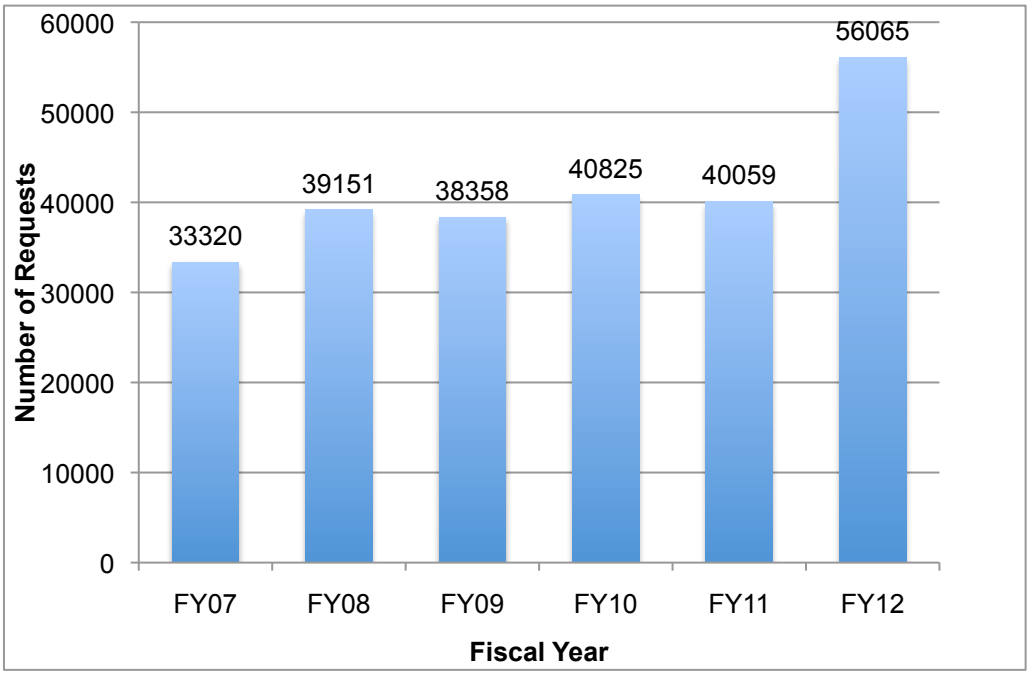
until June 30, 2015. Act 196 also requires pest control operators to attend training provided by the Hawaii One Call Center and requires the Commission to provide a report of Docket No. 2012-0043, which is the Commission's investigation on assessing the risks of the excavation activities of pest control operators, to the Legislature in 2013. The Commission is currently gathering information from the Hawaii Pest Control Association, Hawaiian Electric Company, Inc., Maui Electric Company, Limited, Hawaiian Electric Light Company, Inc., Kauai Electric Utility Cooperative, The Gas Company, LLC, Hawaiian Telcom, Inc., and the Hawaii One Call Center.

Figure 6. Requests made to the Hawaii One Call Center by excavators



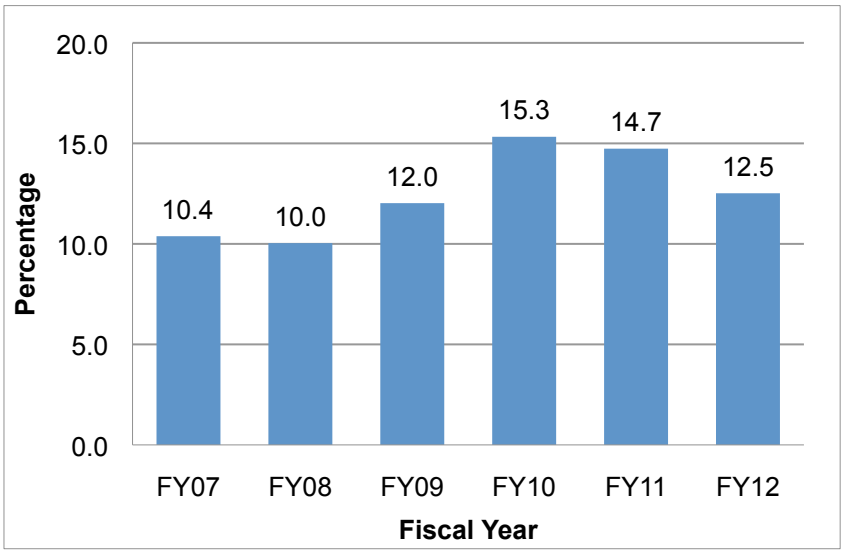
The Hawaii One Call Center had an increase (approximately 25 percent) in the number of requests called in from excavators in FY 2012 (Figure 6). Possible causes for the increase in requests include, but are not limited to, the effects of educational outreach by the Hawaii One Call Center or the possibility of more excavation activities (i.e., Honolulu Rail Transit Project) during the fiscal year. Accordingly, the Hawaii One Call Center had an increase (approximately 29 percent) in the number of requests transmitted to facility operators (Figure 7).

Figure 7. Requests transmitted to facility operators by the Hawaii One Call Center



There are cases in which immediate action in locating a subsurface installation is necessary to prevent or mitigate loss of or damage to life, health, property or essential public services. These emergency cases are called emergency locates and Hawaii One Call Center notification is done after the emergency work is completed, as opposed to the locates, or ticket requests, that are done before excavation, mentioned above. After the One Call Center receives notice of an emergency locate, they notify facility operators of the action.

Figure 8. The average monthly percentage of tickets that are emergency locates



The ratio of emergency locates to the total number of locates has decreased in FY 2012.

Regulatory Proceedings

The Commission is responsible for regulating 217 utility companies or entities (4 electric, 1 gas, 174 telecommunications, and 38 water and sewer companies), 4 water carriers, 743 passenger carriers and 555 property carriers in the State. The Commission regulates these companies in a quasi-judicial manner by issuing decisions in docketed proceedings. This section provides information on docket counts and summarizes select proceedings at the Commission. For information about a specific docket, please visit the Commission's Document Management System: http://dms.puc.hawaii.gov/dms

Docket Counts

As of July 1, 2011, 160 pending dockets were carried over from prior years, and 401 new dockets were opened during the Fiscal Year. Thus, during the Fiscal Year, a total of 561 dockets were before the Commission for review and consideration. Of the 561 dockets, 346 or approximately 62 percent of the dockets were completed by the end of the Fiscal Year. The Commission has issued 853 decisions and orders during the fiscal year. As of June 30, 2012, 215 dockets were pending, carrying over into the next fiscal year.

Table 8. Summary of the Commission's docket counts over the past three fiscal years

	FY10			FY11			FY12			
Utilities	From FY09	Opened	Closed	From FY10	Opened	Closed	From FY11	Opened	Closed	Pending end FY12
Electric	62	32	42	53	36	44	45	41	18	68
Gas	2	1	1	2	2	1	3	3	3	3
Telecom	31	57	77	11	68	58	21	62	61	22
Private Water & Sewage	27	5	22	10	6	4	12	9	5	16
Subtotal	122	96	142	76	112	107	81	115	87	109
Motor Carrier	144	233	302	75	254	255	74	283	256	101
Water Carrier	5	1	4	2	3	1	4	2	3	3
Subtotal	149	234	306	77	257	256	78	285	259	104
One Call Center	1	0	0	1	0	0	1	1	0	2
Total	**272**	**330**	**448**	**154**	**369**	**363**	**160**	**401**	**346**	**215**

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 ("HECO"), serving the island of Oahu; Maui Electric Company ("MECO"), serving the islands of Maui, Lanai, and Molokai; Hawaii Electric Light Company ("HELCO"), serving the island of Hawaii (collectively, "the HECO Companies"); and Kauai Island Utility Cooperative ("KIUC"), serving the island of Kauai. MECO and HELCO are wholly owned subsidiaries of HECO, which is in turn a wholly owned subsidiary of Hawaiian Electric Industries, Inc.

PUC Investigations

The Commission has been given the power, under HRS § 269-7, to make its own motion "to examine into the condition of each public utility, the manner in which it is operated, . . . its business relations with other persons, companies, or corporations, . . . and all matters of every nature affecting the relations and transactions between it and the public or persons or corporations." The legislature can also direct the Commission to open investigations. The following are some of the investigatory dockets currently open relating to electricity and energy:

- **Energy Efficiency Portfolio Standards Law—Docket No. 2010-0037**

  In March 2010, the Commission instituted an investigation to examine establishment of energy efficiency portfolio standards for the State of Hawaii, pursuant to Act 155, Session Laws of Hawaii 2009 and HRS § 269-96. Act 155, as codified in HRS § 269-96 requires, among other things, that the Commission establish EEPS "designed to achieve four thousand three hundred gigawatt-hours of electricity use reductions statewide by 2030; provided that the commission shall establish interim goals for electricity use reduction to be achieved by 2015, 2020, and 2025 and may also adjust the 2030 standard by rule or order to maximize cost-effective energy-efficiency programs and technologies."

  Pursuant to a Stipulated Procedural Schedule filed in the docket, the parties held a series of Informational Workshops in the Fall of 2010; the Commission hosted Technical Sessions in May and August 2011; the Commission's consultant submitted on August 5, 2011 a proposal for "A Framework for Energy Efficiency Portfolio Standards" for the parties review and comment; and Final Statements of Position were filed by the parties on August 29, 2011. On January 3, 2012, the Commission approved the Framework, which establishes EEPS interim goals that will set the course for achieving the 2030 standard in the HRS. The Framework establishes a Technical Working Group that will represent the Commission-regulated and non-regulated entities in the EEPS reporting process. On February 17, 2012 the Commission named members of the EEPS Technical Working Group.

  Though this docket was closed on April 4, 2012, the Commission's Technical Working Group continues to meet and provide input to the Commission.

- **Third Party Administration of Energy Efficiency Programs—Docket No. 2007-0323**

  HRS Chapter 269, Part VII, pertaining to Hawaii's Public Benefits Fee ("PBF"), authorizes the Commission to contract with a third party administrator ("TPA") to implement and manage energy efficiency programs in the State of Hawaii. On March 3, 2009, following a competitively bid selection process, the Commission selected Science Applications International Corporation ("SAIC") to serve as the TPA of energy efficiency programs within the HECO Companies' service territories. SAIC began administering the Hawaii Energy Efficiency Program ("Hawaii Energy") on July 1, 2009 and later transferred its program responsibilities to its subsidiary, R.W. Beck.

  As part of the PBF management process, the Commission also selected Bank of Hawaii as the Fiscal Agent; James Flanagan Associates as the Contract Manager; PKF Pacific Hawaii LLP as the independent auditor; and Evergreen Economics as the independent evaluator of Hawaii Energy's programs.

  In 2009, the Commission set the initial PBF surcharge amount for 2009 and 2010 at 1.0 percent of the projected total electric revenue of the HECO Companies, plus revenue taxes. In 2011, the Commission increased the PBF surcharge to 1.5 percent of the HECO Companies' projected total electric revenue, plus revenue taxes. The Commission has maintained the surcharge at 1.5 percent for 2012. The Commission also awarded SAIC its performance award of $509,215 for PY 2010 and established the PBF two-year budget for Program Years 2011 and 2012 at $71,103,608.

- **Feed-In Tariffs—Docket No. 2008-0273 and Reliability Standards Working Group—Docket No. 2011-0206**

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

  In September 2009, the Commission issued its decision and order on the general principles for the implementation of FITs in the HECO Companies' service territories. The Commission selected an Independent Observer ("IO") to oversee queuing and interconnection procedures related to FITs. The parties also filed proposed reliability standards, queuing and interconnection procedures, proposed FIT tariffs, and extensive comments and information requests relating thereto.

  On October 13, 2010, the Commission approved: (1) proposed FITs for Tier 1 and Tier 2 renewable energy generators, which includes applicable pricing, other terms and conditions, and a standard form of contract for the FIT program; and (2) proposed queuing and interconnection procedures for Tier 1 and Tier 2 of the FIT program. The Commission approved the FIT for Tier 3 and queuing and interconnection procedures with modifications in an order issued on November 22, 2011. This order also clarifies the lowest specified FIT rate and sets the rates for various renewable generators types and sizes.

In response to a proposal filed by the HECO Companies, in August 2010, the Commission approved the creation of a Reliability Standards Working Group ("RSWG"), Technical Support Group, and Technical Review Committee to examine issues relating to grid reliability and integration of intermittent renewable resources on the HECO Companies' systems. The Commission selected an Independent Facilitator ("IF") for the RSWG in January 2011. The Reliability Standards Working Group is facilitated by the IF and meets regularly, en masse and via subcommittees, to assist the Commission in the development of reliability standards for the State's electric grids.

- **On-Bill Financing Investigation—Docket No. 2011-0186**

  On July 8, 2011, the Governor of the State of Hawaii signed into law House Bill No. 1520, HD2, SD2, CDl as Act 204, Session Laws of Hawaii 2011 ("Act 204"). Act 204 directs the Commission to investigate an on-bill financing program for residential electric utility customers. Act 204 also authorizes the Commission to implement the program by decision and order or by rules if the on-bill financing program is found to be viable. The intent of on-bill financing is to allow electric utility company customers who are renters or who lack the resources to invest in renewable energy or energy efficiency to purchase or otherwise acquire such systems by providing for billing and payment of such a system or device through an assessment on the electric utility company customer's monthly bill.

  The Commission instituted this proceeding in August 2011 to investigate the issues related to on-bill financing in the Hawaiian Electric Companies' and Kauai Island Utility Cooperative's service territories. The parties to the docket assist the Commission in evaluating a study analyzing costs and benefits associated with the establishment and administration of the program; the ability of the program to effectively provide lifecycle cost savings to participating electric utility company customers; the ability of the program to make renewable energy and energy efficiency more accessible to the rental market and other underserved markets; an analysis of associated costs, funding mechanisms, and penalties that may be necessary; and other issues deemed appropriate.

  On December 30, 2011, HECO, MECO, and HELCO filed Transmittal No. 11-06 seeking to establish a Simply Solar Pilot Program and other related matters. The pilot program amounted to an on-bill financing program; therefore, on January 31, 2012, the Commission suspended any decision on the pilot program in Transmittal No. 11-06, consolidating it with the Docket No. 2011-0186 and required consultants to analyze the program proposal as part of the docket.

  A consultant's report recommending program elements for a successful on-bill program for Hawaii is due in December 2012. A Commission decision is expected in the first quarter of 2013.

- **Integrated Resource Planning for HECO, HELCO and MECO—Docket No. 2012-0036**

  The overall goal of this integrated resource planning ("IRP") process, which began on March 1, 2012, is to develop a plan that governs how the HECO

Companies will meet energy objectives and customer energy needs consistent with state energy policies and goals, while providing safe and reliable utility service at reasonable cost. In this process, the utility is responsible for developing scenarios and resource plans to guide and develop an Action Plan for near-term initiatives.

The Commission has selected an Independent Entity to oversee, advise, facilitate and monitor the IRP process. An Advisory Group, whose mission is to provide the utility with the benefit of community perspectives by participating in the IRP process and represent diverse community, environmental, social, political, or cultural interests consistent of the framework's goal, was selected by the Commission on June 29, 2012. This group will meet throughout the process to discuss the formulation of scenarios and provide feedback on plans. The revised framework for the IRP process can be found in Docket 2009-0108. The HECO Companies will file their IRP report and Action plan in March 2013.

PUC Investigations on Competitive Bidding Processes

The Commission adopted a Framework for Competitive Bidding ("Framework") in 2006 to govern competitive bidding as a mechanism for acquiring new energy generation in Hawaii. The primary role of the Commission in a competitive bidding process is to ensure that each competitive bidding process "is fair in its design and implementation so that selection is based on the merits;" that projects selected through a competitive bidding process are consistent with the approved IRP; that the utility's actions represent prudent practices; and that throughout the process, the utility's interests are aligned with the public interest even where the utility has dual rules as designer and participant.[27] The competitive bidding dockets serve as a central location for filings related to the process and provide a forum for any necessary review and resolution of disputes. The following are some highlights from the competitive bidding process dockets:

- **Competitive Bidding Process for Firm Generating Capacity on Maui—Docket No. 2011-0038**

  The Commission opened this docket in February 2011 related to MECO's plan to proceed with a competitive bidding process to acquire up to approximately 50 MW of new, renewable, firm, dispatchable capacity generation resources on the island of Maui, with an initial increment coming on line in the 2015 time frame. Maui Electric is actively preparing the draft request for proposal, which will be filed with the Commission in 2013 and reviewed by the Commission's consultant, the Independent Observer, as well as by the public. The Commission has selected Boston Pacific Company Inc. as the Independent Observer via an order on November 16, 2011.

- **Competitive Bidding Process for firm Generating Capacity on Oahu—Docket No. 2011-0039**

  The Commission opened this docket in February 2011 related to HECO's plan to proceed with a competitive bidding process to acquire up to

[27] Framework, Part III.B.1, at 12.

approximately 300 MW of new, renewable firm, dispatchable capacity generation resources on the island of Oahu, with the initial increments coming on line in the 2016 time frame and the remainder over the following two years. HECO is actively preparing its draft request for proposal, which will be filed with the Commission in 2013, then will be subsequently reviewed by the Commission's consultant, the Independent Observer, as well as by the public. The Commission has selected Boston Pacific Company Inc as the Independent Observer via an order on November 16, 2011.

- **Competitive Bidding Process for Renewable Energy on Oahu—Docket No. 2011-0225**

  The Commission opened this docket in September 2011 related to HECO's plan to competitively bid at least 200 MW of renewable energy resources delivered to the island of Oahu. By order issued on July 14, 2011, in Docket No. 2009-0327, the Commission instructed HECO to submit a draft request for proposal for a minimum of 200 MW of renewable energy for delivery to the island of Oahu, according to the Competitive Bidding Framework. The draft request for proposal was submitted on October 14, 2011. Also on that day, the Commission selected Boston Pacific Company Inc. as the Independent Observer. HECO updated its draft request for proposal on September 28, 2012, taking into consideration the numerous comments received from the community and potential bidders.

- **Competitive Bidding Process for 50 MW geothermal on Hawaii Island—Docket No. 2012-0092**

  The Commission opened this docket in May 2012 related to HELCO's plan to competitively bid approximately 50 MW of dispatchable renewable geothermal firm capacity generation on the island of Hawaii. The Commission intends to select an independent observer for this docket in December 2012.

HECO, HELCO, MECO, and KIUC Proceedings

HRS § 269-16 states that "all rates, fares, charges, classifications, schedules, rules, and practices . . . shall be filed with the public utilities commission. . . . The commission, in its discretion and for good cause shown, may allow any rate, fare, [etc.] to be established, abandoned, modified, or departed from." The following proceedings are some of the open proceedings that relate to utility practices:

- **HECO 2011 Test Year Rate Increase Request—Docket No. 2010-0080**

  In July 2010, HECO filed an application requesting a general rate increase of 6.6 percent over revenues at current effective rates, estimated at $113,523,000 based on a total revenue requirement of $1,841,889,000. The rate increase is based on the normalized January 1, 2011 to December 31, 2011 test year. The requested rate increase includes "both the work necessary to reliably and safely operate and maintain Hawaiian Electric's system on an on-going basis, and the work required to implement important new initiatives and

programs."[28] The initiatives and programs proposed focused on clean energy, increasing the effectiveness of their generating units, asset management to begin the task of dealing with aging infrastructure, and efforts to maintain larger fuel inventories. In addition to the rate increase, HECO requested Commission approval of a purchased power adjustment clause to recover non-energy purchased power agreement costs, a deferred software cost recover provision, a change to the Energy Cost Adjustment Clause ("ECAC"), and an increase in the fee for returned checks or payments.

On July 22, 2011, the Commission filed an Interim Decision and Order that approved an increase in revenues of $53,200,000, or approximately 3.1 percent over revenues at current effective rates. The Commission later revised the approved increase in revenues in three separate orders; the final interim increase over revenues of $58,234,000 can be found in an order filed on March 20, 2012. The Commission approved an increase of 3.39 percent over revenues at current effective rates in its June 29, 2012 decision and order.

- **MECO 2010 Test Year Rate Increase Request—Docket No. 2009-0163**

In September 2009, MECO filed its application, seeking an increase in revenues of $28,190,300 (approximately 9.7 percent), and a rate of return of 8.57 percent. MECO also proposed to establish: (1) a purchased power adjustment clause/surcharge to recover non-energy purchased power agreement costs by effectively transferring the recovery of purchased power costs from base rates to the new surcharge that will be adjusted monthly and reconciled on a quarterly basis; and (2) a revenue balancing account for a revenue decoupling mechanism that will remove the linkage between electric revenues and sales, if such a revenue balancing account is not otherwise approved by the Commission in its separated revenue decoupling investigative proceeding (Docket No. 2008-0274).

In July 2010, the Commission approved an interim increase in revenues of $10,296,200, or approximately 3.3 percent over revenues at current effective rates, based on total revenue requirement of $323,885,100 (consolidated operations basis). Thereafter, in January 2011, the Commission approved an adjustment to the interim increase in revenues, which resulted in a decrease in the amount of the interim increase in revenues previously approved by the Commission, from $10,296,200 to $8,513,000, i.e., by $1,783,200.

In an order on May 2, 2012, the Commission approved an increase in revenues of approximately 1.5 percent over revenues which is lower than the interim increase, resulting in a slight reduction in MECO's rates; approved the proposed tariff sheets for MECO's ECAC; and approved the proposed tariff sheets to implement decoupling and the purchased power adjustment clause. This docket was closed on May 22, 2012.

[28]Hawaiian Electric Company Inc. Application Verification and certificate of service. Filed July 30, 2010, page 3.

- **MECO 2012 Test Year Rate Increase Request—Docket No. 2011-0092**

  In July 2011, MECO filed an application requesting a general rate increase of $27,523,000, or approximately 6.68 percent, based on a total estimated revenue requirement of $439,377,000 for the 2012 test year. In addition to the rate increase, MECO proposes to establish a purchased power adjustment clause to recover non-energy purchased power cost, revise its ECAC tariff, and implement a change in accounting for administrative and general transfers to construction projects.

  In an order issued on May 21, 2012, the Commission approved an interim rate increase in revenues of $13,089,000 or approximately 3.16 percent based on a 2012 test year. In this interim decision, the Commission also approved revisions to the ECAC, changes in accounting, and considered other MECO requests.

- **HELCO 2010 Test Year Rate Increase Request—Docket No. 2009-0164**

  On December 9, 2009, HELCO filed an application requesting a general rate increase of $20,934,500 (approximately 6.0 percent) over its revenues at current effective rates. In addition, HELCO proposes to establish: (1) a purchased power adjustment clause/surcharge to recover non-energy purchased power agreement costs by effectively transferring the recovery of purchased power costs from base rates to the new surcharge that will be adjusted monthly and reconciled on a quarterly basis; and (2) a revenue balancing account for a revenue decoupling mechanism that will remove the linkage between electric revenues and sales, if such a revenue balancing account is not otherwise approved by the Commission in its separate revenue decoupling investigative proceeding, Docket No. 2008-0274.

  On November 3, 2010, the Commission issued its Interim Decision and Order, which approved an interim increase of $5,956,000 over revenues at present rates rather than the $20,934,500 that was requested in the application. In a Decision and Order issued on April 4, 2012, the Commission approved a rate increase of $4,494,000 over its revenues at current effective rates.

- **HELCO 2013 Test Year Rate Increase Request—Docket No. 2012-0099**

  On August 16, 2012, HELCO filed an application requesting a general rate increase of $19,808,000 (approximately 4.2 percent) over its revenues at present rates. HELCO, as part of its overall request, also seeks the Commission's approval of: (1) an interim increase in its revenues at present rates through an interim 2013 test year surcharge, pending the Commission's issuance of its final decision; and (2) other requests that it proposes to take effect simultaneously with any interim increase in revenues that is approved by the commission, including: (A) certain accounting changes; (B) the re-setting of its target heat rates by fuel type and its loss factor to 2013 test year levels for the purpose of calculating its existing energy cost adjustment clause; and (C) changes in the monthly allocation factors and the basis for these factors in the revenue balancing account provision of its existing revenue decoupling mechanism. On October 29 and October 30, 2012, the Commission held two public hearings on

Hawaii Island to take public comment relating to HELCO's application. The docket process is ongoing.

- **KIUC DSM and IRP Cost Adjustment Surcharge—Docket No. 2011-0388**

  On December 28, 2011, KIUC submitted an application to the Commission for approval of changes to their tariff to reflect a surcharge to recover costs for its 2012 IRP and DSM programs. The surcharge also includes a reconciliation adjustment of amounts collected in 2011. In an order filed on February 24, 2012, the Commission found that the proposed tariff changes are reasonable and appropriate, effective March 1, 2012.

- **HECO/MECO/HELCO Modification of Rule 14H—Docket No. 2010-0015**

  Tariff Rule 14H governs the interconnection of distributed generating facilities operating in parallel with the utilities' electrical systems. The HECO companies initially filed this application to amend parts of the appendices of this rule in January 2010. The parties reached a consensus about some of the proposed revisions to Rule 14H, which were adopted in an order filed on May 26, 2010. The agreed upon changes approved in this order include (1) increasing the percentage of annual peak kilovolt-ampere load for the feeder that triggers additional technical studies from 10 to 15 percent, (2) establishing a standard three-party interconnection agreement, (3) including cross-limitation of liability and non-indemnification language with respect to projects where a State of Hawaii agency is the customer; and (4) including additional data information regarding the customer's generating facility.

  To deal with the amendments that were contentious among the parties, the Commission filed a Decision and Order on December 20, 2011. The Commission decided that (1) for generating facilities with an aggregate capacity of greater than 250 kW for HELCO and MECO, supervisory controls shall be required; (2) for generating facilities with an aggregate capacity of greater than 1 MW for HECO, supervisory controls shall be required; (3) for generating facilities with an aggregate capacity of 250 kW or less for HELCO, MECO, and HECO supervisory controls per se are not required, and for generating facilities with an aggregate capacity greater than 250 kW and up to 1 MW for HECO, supervisory controls may be required; (4) remote disconnection will apply to generating facilities if such facilities have supervisory control; and (5) the electric utility may require the installation or modification of equipment under certain conditions, once a generating facility has been interconnected, provided that the electric utility is responsible for the post-interconnection associated costs.

  The Commission declined to adopt the proposals that enabled the HECO companies to (1) require inverters to operate outside of the voltage levels that are presently specified in Rule 14H, and (2) establish set points and clearing times outside of the ranges that are presently specified in the rule. The Commission also declined to adopt the HECO Companies' proposals to provide them with the absolute authority to defer the interconnection of a generating facility under certain conditions.

- **HECO/HELCO/MECO's Fast Demand Response Program—Docket No. 2010-0165**

  In August 2010, The HECO Companies requested the approval of a two-year Fast Demand Response Pilot Program for HECO and MECO and the recovery of costs for the program to the total of $4,510,000 for HECO and $231,7000 for MECO. The proposed program targets the cumulative installation of approximately 7 MW at HECO and 200 kW at MECO. The Commission approved the pilot program and the recovery of costs in a Decision and Order on November 9, 2011 and approved a modified budget in an Order on March 19, 2012.

- **HECO/HELCO/MECO's Request to Approve a Contract with Aina Koa Pono-Kau LLC—Docket No. 2011-0005**

  In September 2011, the Commission denied the HECO Companies' request to approve HELCO's Biodiesel Supply Contract with Aina Koa Pono-Kau LLC, dated January 6, 2011, for approximately sixteen million net United States gallons annually of locally-produced biodiesel over 20 years. The Commission concluded that the contract price for the biofuel was excessive, not cost-effective, and thus, was unreasonable and inconsistent with the public interest. The Commission also expressed certain observations with respect to the HECO Companies' proposal to establish and implement a Biofuel Surcharge Provision that was intended to pass through the differential between the cost of the biofuel and the cost of the petroleum fuel that the biofuel was replacing, in the event that the cost of the biofuel was higher than the cost of the petroleum fuel, over the customers of HECO and HELCO. This docket has been closed.

- **HECO/HELCO's Request to Approve a Contract with Aina Koa Pono-Kau LLC—Docket No. 2012-0185**

  On August 12, 2012, HECO and HELCO filed an application for approval of: (1) an amended Biodiesel Supply Contract with Aina Koa Pono-Kau LLC, dated August 1, 2012, for approximately sixteen million net United States gallons annually of locally produced biodiesel over twenty years contract costs, including the biodiesel, transportation, and storage costs, and related taxes; (2) to include the costs of the Biodiesel Supply Contract, including without limitation, the costs associated with the biodiesel, transportation, storage, and related taxes, in HELCO's Energy Cost Adjustment Clause, to the extent that such costs are not recovered in HELCO's base rates (pursuant to Hawaii Administrative Rules § 6-60-6) or through the proposed Biofuel Surcharge Provision; and (3) to establish a Biodiesel Surcharge Provision that will apply to the customers of HELCO and HECO. The Commission held two public hearings on Hawaii Island on October 29 and October 30, 2012 and one public hearing on Oahu on November 1, 2012. The docketed proceeding is ongoing.

Applications for PUC approval of Power Purchase Agreements ("PPAs")

As stated in HRS § 269-27.2, "the rate payable by the public utility to the producer for the non-fossil fuel generated electricity supplied to the public utility shall be as agreed between the public utility and the supplier and as approved by the public utilities commission." The following dockets are some of the PPAs that were acted upon in FY 2012:

- **HECO Power Purchase Agreement with IC Sunshine, LLC— Docket No. 2011-0015**

  On January 19, 2011, HECO filed an application requesting that the Commission: (1) approve a PPA between HECO and IC Sunshine LLC ("IC Sunshine"); (2) authorize HECO to include the purchased energy charges that it incurs under the PPA in Hawaiian Electric's ECAC; (3) find that the purchased energy charges to be paid by HECO pursuant to the PPA are reasonable; and (4) find that HECO's purchased power arrangements under the PPA, pursuant to which HECO purchases energy on an as-available basis from IC Sunshine, are prudent and in the public interest; and (5) determine that the 46 kV line extension included as part of HECO's interconnection facilities may be constructed above the surface of the ground. Pursuant to the PPA, IC Sunshine would install, operate, and maintain an approximately five MW photovoltaic energy facility on a 20-acre parcel of property in Campbell Estate Industrial Park, Ewa District, on the island of Oahu.

  The Commission issued its Decision and Order on January 26, 2012 approving the PPA. The term of the PPA is 20 years following the in-service date of the project. The price of the energy purchased by HECO is dependent upon whether IC Sunshine elects the Hawaii Refundable Tax Credit or the Hawaii Tax Credit in HRS § 235-12.5.

- **HECO Power Purchase Agreement – Kalaeloa Solar Two— Docket No. 2011-0051.**

  In January 2011, HECO requested approval of a power purchase contract. The PPA was amended in March 2011 and July 2011. Pursuant to the PPA, Kalaeloa Solar would develop, design, construct, own, operate, and maintain a 5 MW solar photovoltaic energy facility. The Commission issued its Decision and Order on September 21, 2011 that approved the PPA for as-available energy, authorized HECO to include the purchased energy charges and related revenue taxes incurred in its ECAC, found that the purchased energy charges to be paid by HECO are reasonable and the terms of the contract are in the public interest, and determined that the line extension owned by HECO may be constructed above the surface of the ground. The term of the contract is 20 years and the price of the energy purchased by HECO is dependent upon whether Kalaeloa Solar Two elects to file for the 35 percent tax credit or the 24.5 percent refund as allowed by HRS § 235-12.5.

- **HECO Power Purchase Agreement with Kapolei Sustainable Energy Park—Docket No. 2011-0185**

  In August 2011, HECO requested approval of a PPA with Kapolei Sustainable Energy Park. The Kapolei Sustainable Energy Park would be designed, constructed, owned, operated, and maintained by Forest City LLC. The proposed 1 MW photovoltaic facility would operate in parallel with HECO's system. The PPA was amended in November 2011. In a Decision and Order issued on November 18, 2011, the Commission approved the PPA, authorized HECO to include the purchased energy charges and related revenue taxes incurred in its ECAC, and found that the purchased energy charges to be paid by HECO are reasonable and the terms of the contract are in the public interest. The term of the contract is 20 years and the price of the energy purchased by HECO is dependent upon whether Forest City elects to file for the 35 percent tax credit or the 24.5 percent refund as allowed by HRS § 235-12.5.

- **HECO Power Purchase Agreement with Kawailoa Wind—Docket No. 2011-0224**

  In September 2011, HECO requested approval of a PPA with Kawailoa Wind, LLC. Kawailoa Wind LLC was organized by First Wind LLC in order to develop wind power at Kamehameha School's Kawailoa Plantation on the north shore of Oahu. In the proposal, Kawailoa Wind will design, construct, own, operate, and maintain the proposed 69 MW wind farm, which will run in parallel with HECO's system. The wind farm will have two separately interconnected sections.

  On December 12, 2011, the Commission approved the PPA, authorized HECO to include the purchased energy charges and related revenue taxes incurred in its ECAC, found that the purchased energy charges to be paid by HECO are reasonable and the terms of the contract are in the public interest, and determined that the line extension owned by HECO may be constructed above the surface of the ground. The term of the contract is 25 years following the commercial operations date, unless conditions are satisfied for step down pricing, in which case the term is 20 years following the commercial operations date. The price of the energy purchased depends on the meeting of specified conditions and the eligibility of the wind turbines for the federal Investment Tax Credit.

- **HELCO Power Purchase Agreement with Puna Geothermal Venture—Docket No. 2011-0040**

  On February 25, 2011, HELCO filed an application to approve a PPA with Puna Geothermal Venture ("PGV"). Currently, PGV operates an existing geothermal electric generating facility in the vicinity of Pu'u Honualua, Kapoho, Hawaii, County of Hawaii that provides HELCO with up to 30 MW of energy and firm capacity under an amended purchase power contract.

  HELCO and PGV have been in extensive negotiations over the past several years relating to an expansion of the existing facility. Conceptually, the parties agreed that, subject to Commission approval, PGV will make such

improvements and modifications to expand its existing facility to enable the resulting facility to provide 38 MW of energy and firm capacity and to meet certain operational, performance and dispatch requirements not currently required under the Existing PPA. As part of the expansion project, PGV is installing 11 MW of capacity but only requiring HELCO to commit to purchase an additional 8 MW of firm capacity. The additional 3 MW is going to be available to supplement the existing facility's 25 to 30 MW on-peak obligation or the additional 8 MW capacity obligation under the 8 MW expansion PPA. In return for allowing PGV to supplement the existing facility, PGV has agreed to delink the energy price paid for certain amounts of energy under the Existing PPA from oil.

On December 30, 2011, the Commission filed a Decision and Order approving HELCO's amendments to the Purchase Power Contract with PGV, approving the expansion PPA for 8 MW of firm capacity, and authorizing HELCO to include the purchased power costs incurred by the amendments and the 8 MW expansion in their ECAC and Firm Capacity Surcharge or Purchased Power Adjustment Clause as appropriate. Although the Commission approved the application, the Commission is disappointed that HELCO and PGV were unable to negotiate an increased reduction in the avoided cost-based payments that PGV will receive for the first 25 MW of the 38 MW PPA. The Commission is not approving the underlying, avoided cost PPA, as that contract was developed and approved prior to the implementation of HRS § 269-27.2(c), which required all new generation pricing to be delinked from the price of fossil fuel. Existing law prevents the Commission from unilaterally amending the underlying PPA. The Commission believes the public interest would be best served to delink all non-fossil fuel PPAs from the price of oil to provide the benefits of more certain prices to consumers while still ensuring developers a fair return on their investment.

- **MECO Amendment to Power Purchase Agreement with Kaheawa Wind—Docket No. 2011-0192**

  In August 2011, MECO requested approval of an amendment to their Power Purchase Contract with Kaheawa Wind Power LLC. The amendments proposed removed the linkage between the price of fossil fuels and the rate for the non-fossil fuel generated electricity, consistent with current HRS § 269-27.2(c).

  On April 17, 2012, the Commission approved the amendment to the contract, finding the revised purchased energy charges are just and reasonable and the purchased power arrangements under the amendment are prudent and in the public interest. The Commission also authorized the inclusion of the revised purchased energy charges and related revenue taxes incurred in MECO's ECAC. The amendments made to the contract are consistent with current state law, and additionally, the amended pricing structure reflects an escalation factor that may result in increased ratepayer savings, when compared to an avoided cost basis, if the cost of fossil fuel continues to rise.

- **KIUC Power Purchase Agreement with McBryde Sugar—Docket No. 2011-0180**

  In August 2011, KIUC requested approval of a PPA with McBryde Sugar Company, Limited ("McBryde"). In the PPA, McBryde, owned by Alexander and Baldwin Inc., will construct and operate a 6 MW photovoltaic generation plant located on land adjacent to KIUC's Port Allen power plant in Eleele.

  On March 16, 2012, the Commission issued a Decision and Order approving the PPA, finding that the purchased energy charges are reasonable and the terms of the contract are prudent and in the public interest, authorizing the purchased energy charges and related revenue taxes to be included in KIUC's Energy Rate Adjustment Clause ("ERAC"), and approving KIUCs request to commit funds to purchase and install on McBryde's land two separate batteries owned, operated and maintained by KIUC for grid stability purposes. The term of the contract is 20 years following the in-service date of the facility.

- **KIUC Power Purchase Agreement with Poipu Solar—Docket No. 2010-0307**

  On July 7, 2011, the Commission approved the PPA for as-available energy between KIUC and Poipu Solar to provide approximately 3 MW from Poipu Solar's photovoltaic generation plant. The initial term is 20 years, commencing upon the in-service date (the date upon which KIUC receives notification that Poipu Solar meets all requirements under the interconnection agreement, but no earlier than June 30, 2011), and will remain in effect thereafter for five automatic one-year extensions until terminated by either party.

Telecommunications Proceedings

The Commission oversees the intrastate cellular, paging, mobile telephone, and other services of telecommunications providers in addition to the services of Hawaiian Telcom, Inc. ("Hawaiian Telcom"), the State's only incumbent local exchange carrier and largest provider of intrastate services. Key activities in telecommunications are highlighted below.

New Telecommunications Carrier Certifications

The Commission certificates telecommunications companies, which are providers or resellers of various intrastate wireless, calling card, and interexchange (long distance) telecommunications services. The following docket is one of many Telecommunications Carrier Certifications before the Commission:

- **Pa Makani dba Sandwich Isles Wireless for Designation as an Eligible Telecommunication Carrier—Docket No. 2011-0145**

  In June 2011, Pa Makani LLC filed an application for designation as an eligible telecommunications carrier ("ETC") in the State of Hawaii. Pa Makani holds a certificate of registration issued by the Commission to provide intrastate commercial mobile radio services or wireless telecommunications services.

Pa Makani provides or intends to provide wireless mobile broadband, voice, and data telecommunications services to the residents and businesses on Hawaiian Home Lands throughout the State on a facilities-based and resold basis. On April 10, 2012 the Commission approved Pa Makani's ETC designation, finding that it meets the applicable federal and state requirements for designation.

Private Water and Sewage Utilities Proceedings

The Commission regulates 38 privately owned water and sewage treatment utilities that serve suburban, rural, and resort areas throughout the State. The majority of these utilities are located on the neighbor islands. The following is one of many docketed proceedings for these private utilities:

- **Indirect transfer of Manele Water Resources, Lanai Transportation, and Lanai Water—Docket No. 2012-0157**

  On June 19, 2012, the Commission received an application filed by Castle & Cooke, Inc.; Castle & Cooke Resorts, LLC; Manele Water Resources, LLC; Lanai Water Company, Inc.; and Lanai Transportation Company, Inc. for approval of an indirect transfer and sale of the utilities from Castle & Cooke, Inc. to Lanai Island Holdings. Castle & Cooke, Inc.'s ultimate parent entity is the David H. Murdock Revocable Trust and Lanai Island Holdings, LLC's ultimate parent entity is the Lawrence J. Ellison Revocable Trust. The sale of Manele Water Resources, LLC, a wastewater utility; Lanai Water Company, Inc, a water utility; and Lanai Transportation Company, Inc., operating as a common carrier of passengers, are three public utilities subject to the Commissions jurisdiction and regulation. The scope of the Commission's proceeding is limited only to the indirect sale and transfer of the three Lanai-based public utilities.

  The Commission issued an Interim Decision and Order conditionally approving the transfer on June 25, 2012. The Commission has the right to ultimately disapprove the indirect transfer and sale of the three public utilities as part of the Commission's future final decision on the application. The Commission chose to proceed with its interim decision despite deficiencies in the filing so as to not jeopardize the June 27, 2012 closing date for the overall purchase and sale transaction, which remains subject to the Commission's right to ultimately disapprove the indirect transfer and sale of the three public utilities.

  The parties submitted a procedural order, which was ultimately accepted by the Commission as modified on August 14, 2012. According to this schedule, Statements of Position from the Consumer Advocate and Lanaians for Sensible Growth are due in November 2012.

Motor Carriers Proceedings

The Commission regulates passenger and property motor carriers. Passenger carriers are classified by authorized vehicle seating capacity. They include tour

companies, limousine services, and other transportation providers. Property carriers are classified by the types of commodities transported and the nature of services performed, namely: general commodities, household goods, commodities in dump trucks, and specific commodities. By law, certain transportation services, including, without limitation, taxis, school and city buses, ambulance services, refuse haulers, farming vehicles, and persons transporting personal property, are exempt from Commission regulation.

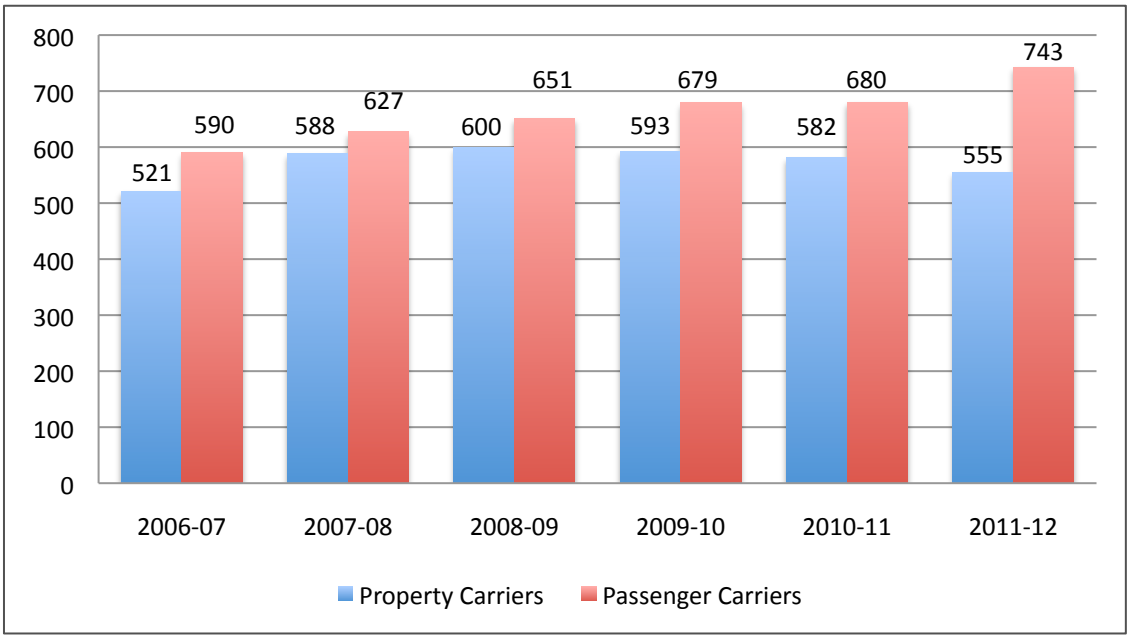
In accordance with its statutory requirements, the Commission performs the following functions in the regulation of motor carriers: (1) certification and licensing; (2) ratemaking; and (3) business regulation.

New Motor Carriers Certifications

The Commission regulates 743 passenger carriers and 555 property carriers in the State. During the Fiscal Year, new certificates or permits were issued to 107 motor carriers, of which 90 were passenger carriers and 17 were property carriers.

In the Fiscal Year, the number of passenger carriers increased over the previous fiscal year while the number of property carriers decreased, as shown in Figure 9.

Figure 9. Number of active motor carriers per fiscal year



Requests for Rate Changes

Many of the State's motor carriers are members of either the Western Motor Tariff Bureau, Inc. ("WMTB") or the Hawaii State Certified Common Carriers Association ("HSCCCA"). The WMTB and the 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. During the Fiscal Year, both the WMTB and HSCCCA filed requests for rate changes for its

members. Of the independent motor carriers, the Commission reviewed and approved rate requests from 41 motor carriers.

Rates that are increased or decreased by ten percent within a calendar year are presumed to be just and reasonable, pursuant to the zone of reasonableness program ("ZRP"), which went into effect on January 1, 2004. On September 22, 2010, the Commission issued an order authorizing the permanent continuation of the ZRP, subject to certain conditions.

Motor carriers who request rate increases or decreases that do not fall within the ±10 percent zone are required to show that the rate request is just and reasonable. In reviewing these requests, the Commission requires the carrier to submit financial statements containing the carrier's revenues, expenditures, and operating ratio. The Commission will approve the rate increase or decrease based on an acceptable operating ratio reported in the financial statements.

Water Carriers Proceedings

The Commission regulates four water carriers: Young Brothers, Limited ("Young Brothers"), a provider of inter-island cargo service between all major islands; Sea Link of Hawaii, Inc. ("Sea Link"), a passenger and cargo carrier providing water transportation services between the islands of Maui and Molokai; Hone Heke Corporation ("Hone Heke"), a passenger and cargo carrier providing water transportation services between the islands of Maui and Lanai; and Pasha Hawaii Transport Lines LLC ("Pasha"), a provider of cargo service between the ports of Honolulu, Kahului, and Hilo with authorization to make calls to Nawiliwili, Barbers Point, and Pearl Harbor upon a customer's request. Water carrier docket proceedings are highlighted below.

- **Young Brothers, Limited's Request for General Rate Increase— Docket No. 2010-0171**

  On December 22, 2010, Young Brothers filed an application, seeking commission approval to: (1) increase its commodity rates, fees, and charges; (2) make certain revisions to its Tariff 5-A; and (3) switch from a calendar monthly closing schedule to a closing schedule that, on a quarterly basis, would divide the reporting periods as follows: five weeks for the first period, four weeks for the second period, and four weeks for the third period within the quarter (referred to Young Brothers as its proposed "Five-Four-Four" quarterly schedule. Specifically, in the December 22 Application, Young Brothers requested approval to increase its revenues in the amount of $14,404,000, or by 23.97 percent over revenues at current rates in the amount of $60,079,767, at a proposed rate of return of 14.12 percent.

  On February 3, 2011, the Commission issued an order, rejecting Young Brothers' December 22 application without prejudice. Specifically, the Commission found that Young Brothers' December 22 Application lacked the recorded actual results of operations for the prior calendar year, as required by the Commission's rules. The Commission, however, allowed Young Brothers to re-file a new application in accordance with the Commission's rules.

On May 6, 2011, Young Brothers re-filed its Application for approval of a general rate increase and certain tariff changes. Included within the Application, Young Brothers offers two scenarios for the Commission's consideration. Young Brothers states that "With Pasha Impact Reflected," it will need to increase its revenues by $16,986,000, i.e., approximately 28.68 percent over revenues at present rates in the amount of $59,216,236, and a proposed rate of return of 14.12 percent on the water carrier's average depreciated rate base (for its intrastate water carrier operations). Young Brothers alternatively notes that "Without Pasha Impact Reflected," it will need an increase in revenues in the amount of $13,591,000, or approximately 22.50 percent over revenues at present rates in the amount of $60,397,356, with a projected rate of return of 11.97 percent.

On May 6, 2011, Young Brothers re-filed its application, exhibits, and direct testimonies. Specifically, Young Brothers seeks the Commission's approval to increase its revenues by $14,195,000, and not more than $14,404,000, the rate increase requested in its original application filed on December 22, 2011, or by approximately 23.97 percent over revenues at present rates, based on a 2011 calendar test year and a proposed rate of return of 14.12 percent, but with an effective rate of return of 11.68 percent given Young Brothers' proposed reduction of revenue requirements, on the water carrier's average depreciated rate base (for its intrastate water carrier operations). For specific cargo types, Young Brothers proposes rate increases ranging from 14 to 38.7 percent, as follows: dry containers (including flatracks and platforms), 15 percent; reefer containers, 18 percent; automobiles and roll-on/roll-off cargo, 14 percent; and G-vans, pallets, and mixed cargo, 38.7 percent. As part of its application, Young Brothers also proposes certain other changes to its tariff.

On December 16, 2011, the Commission filed a Decision and Order approving an increase in intrastate revenues of $10,574,932, or approximately 16.58 percent over intrastate revenues at present rates based on a rate of return of 10.25 percent and a total intrastate revenue requirement of $74,342,455. Specifically, the Commission approves (1) rate increases as follows: dry container, 11 percent; reefer container, 15 percent; flatracks/platforms, 11 percent; automobile, 14 percent; roll-on/roll-off cargo, 14 percent; G-Vans and other less than container load cargo, 26 percent; (2) other changes to Young Brothers' tariff; and (3) use of the Five-Four-Four quarterly schedule.

One Call Center Proceedings

As mandated by Act 141, SLH 2004, the Commission was required to establish and begin administration of a One Call Center to coordinate the location of subsurface installations and provide advance notice to subsurface installation operators of proposed excavation work. The One Call center began operating in January 2006. The following proceeding pertains to the One Call Center:

- **Assess the excavation activities of pest control operators— Docket No. 2012-0043**

  The Commission opened this investigatory docket in March 2012 to assess the excavation activities of pest control operators and to determine whether they should be allowed partial relief from the requirements of HRS Section 269-E One Call Center; Advance Warning to Excavators. This docket was opened as a response to Senate and House bills introduced during the 2012 Hawaii Legislative Session. The parties have all submitted their Statement of Positions, and if the parties determine that Reply Statement of Positions are unnecessary, they will need to notify that Commission that the proceeding is ready for decision making.

Enforcement Activities

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

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

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

Formal Complaints

There was one formal complaint processed in FY 2012. The complaint is Docket No. 2012-0159.

Written Informal Complaints

As shown in Table 9 below, the Commission received a total of 114 written informal complaints in the Fiscal Year against regulated and unregulated utility and transportation companies.

Table 9. Total number of informal complaints received by the Commission

	2009-10	**2010-11**	**2011-12**
Utilities			
Telecommunications:			
Wire line (telephone)	27	30	28
Cellular and Paging	36	32	22
Other	7	1	0
Total Telecom	70	63	50
Electricity	31	30	41
Gas	7	4	3
Water/Sewer	6	5	2
Other	0	5	2
Transportation Carriers			
Water Carrier	1	0	1
Motor Carrier	22	17	15
Total Complaints	137	124	114

Table 9 indicates that the Commission received 50 written informal complaints involving telecommunications providers. The majority of these telecommunications complaints (27) were against Hawaiian Telcom. In addition to telecommunication complaints, the Commission received 41 electric complaints, 3 gas complaints, 2 water/sewer complaints, 1 water carrier complaint, and 15 complaints against motor carriers.

Informal Complaint Survey

In an effort to improve the Commission's service to consumers, a survey of informal written complaints filed in the Fiscal Year with the Commission was initiated in Fiscal Year 2003-04. A survey is sent to complainants when their case is closed. The survey includes four questions:

1. Do you feel that we responded to your complaint in a reasonable amount of time?
2. Did we provide you with a response that was clear and understandable?
3. Was your complaint resolved to your satisfaction?
4. If you called us and spoke with our staff, were they courteous and professional?

In this Fiscal Year, the Commission received 9 responses to its informal complaint survey. They indicated that overall, the response time was reasonable,

responses were clear and understandable, and complaints were resolved to complainants' satisfaction. All who called felt staff were courteous and professional.

Civil Citations

The Commission issues civil citations to motor carriers and freight forwarders for violations of the Motor Carrier Law, HRS Chapter 271, and Hawaii Water Carrier Act, HRS Chapter 271G. The citations impose a civil penalty, typically $500 or $1,000 per violation. Some of the common types of citations relate to operating without a certificate or permit issued by the Commission, failure to publish a tariff, failure to maintain the required liability insurance, improper vehicle marking, and stop-in-transit violations (i.e., shipping intrastate cargo described as interstate cargo).

For this Fiscal Year, civil penalties collected through civil citations totaled $12,731. The Commission's enforcement officers issued 10 citations on the following islands: Oahu—7, Maui—1, and Hawaii—2. The Commission also revoked 33 motor carriers' certificates for failure to pay the civil penalties imposed and/or for failure to file an Annual Financial Report and/or for failure to pay the requisite Motor Carrier Gross Revenue Fee.

During the Fiscal Year, the Commission formed a new partnership with the Federal Motor Carrier Safety Administration ("FMCSA") to combat fraud and gain compliance from interstate household goods movers. Pursuant to 49 U.S.C. § 14710, the FMCSA is allowed to delegate its authority over the interstate transportation of household goods to state agencies that have that authority intrastate. Formerly, the Commission would forward all complaints regarding the movement of interstate household goods to the FMCSA. With this newly delegated authority, the Commission will be empowered to enforce the federal regulations and statutes in regard to interstate household good moves, and, thus, will retain and investigate all interstate household goods complaints that it receives.

Inquiries

In addition to consumer complaints, the Commission is responsible for collecting and compiling all inquiries concerning public utilities. The Commission's staff receives numerous requests for information relating to utilities and transportation carriers. As shown in the table below, the Commission received a total of 917 inquiries in the Fiscal Year, mostly relating to motor carriers.

Table 10. Total inquiries received by the Commission per fiscal year.

	2008-09	**2009-10**	**2010-11**	**2011-12**
Utilities				
Telecommunications	239	103	71	58
Electric	428	50	170	140
Gas	28	76	74	36
Water/Sewer	25	56	37	24
Transportation Carriers				
Property Motor Carrier	431	380	331	231
Passenger Motor Carrier	404	67	307	349
General Motor Carrier	42	0	0	30
Water Carrier	17	77	88	45
Petroleum	4	3	7	0
One Call Center	0	0	0	0
General Regulated & Unregulated Utilities	0	0	0	4
Total Inquiries	**1,618**	**812**	**1,085**	**917**

Utility Company Operations, Rates and Capital Improvements

Utility Company Operations

Customers Served by Utility Companies

The numbers of customers served by electric and gas utilities have increased slightly during the 2011 calendar year for all electric utilities and decreased slightly for The Gas Company LLC dba Hawaii Gas ("TGC") as shown in Figure 10 and accompanying Table 11.

Figure 10. Growth of electric and gas utility customers using a 2006 baseline for calendar years 2007-2011

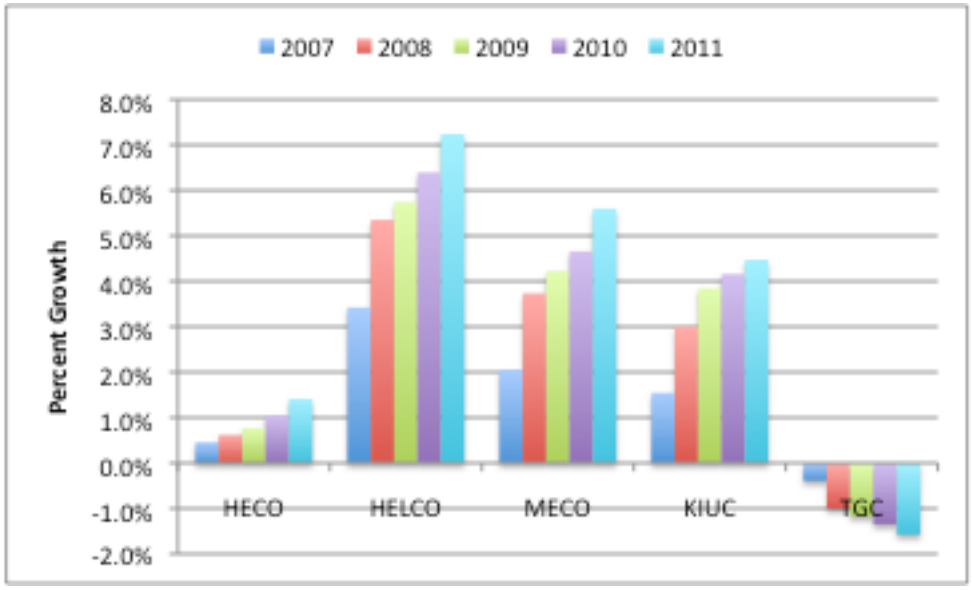


Table 11. Number of electric utility customers and growth using a 2006 baseline[29]

Year	HECO	Growth	HELCO	Growth	MECO	Growth	KIUC	Growth	TGC	Growth
2006	292,554		75,353		64,405		34,671		35,820	
2007	293,893	0.46%	77,933	3.42%	65,728	2.05%	35,207	1.55%	35,681	-0.39%
2008	294,371	0.62%	79,386	5.35%	66,810	3.73%	35,713	3.01%	35,463	-1.00%
2009	294,802	0.77%	79,679	5.74%	67,126	4.22%	36,004	3.84%	35,401	-1.17%
2010	295,637	1.05%	80,171	6.39%	67,405	4.66%	36,113	4.16%	35,338	-1.35%
2011	296,679	1.41%	80,807	7.24%	68,010	5.60%	36,222	4.47%	35,256	-1.57%

[29]Sources: HECO 2011 Service Reliability Report, MECO 2011 Service Reliability Report, HELCO 2011 Service Reliability Report, TGC Annual Reports and KIUC Annual Report to the PUC.

Rates and Revenue

Revenue, Sales, and Rates for Electricity Utility Companies

Electric utility rates are the sum of various components, all of which are analyzed and approved by the Commission. Because conservation, energy efficiency and customer-sited renewable generation measures contribute to falling sales for the utility but are promoted by Hawaii's clean energy policies and laws, the Commission approved the decoupling of utility sales from revenue or profit. Decoupling is intended to remove the disincentive for the HECO companies to aggressively pursue Hawaii's clean energy objectives. The Final Decision and Order issued in August 2010 included a sales decoupling component and a revenue adjustment mechanism, which compensates the HECO Companies for increases in utility costs and infrastructure investment between rate cases.

Table 12 and the following graphs (Figure 11a-f) break down the residential rates for each electric utility by island. Tables 13-16 show the revenue, sales, and average retail price for each rate class. Figure 12a-d illustrates the breakdown of the revenue received by the electric utilities.

Table 12. Residential rates for electric utilities

Utility	Fiscal Year	Other Adjustments	ERAC	Base Rate	Total
HECO	2008	$0.0233	$0.0854	$0.1719	$0.2805
	2009	$0.0247	-$0.0103	$0.1719	$0.1863
	2010	$0.0292	$0.0451	$0.1719	$0.2462
	2011	$0.0342	$0.1078	$0.1838	$0.3258
	2012	$0.0478	$0.1327	$0.1838	$0.3643
HELCO	2008	$0.0250	$0.1787	$0.1914	$0.3951
	2009	$0.0340	$0.0667	$0.1914	$0.2921
	2010	$0.0254	$0.1150	$0.1914	$0.3318
	2011	$0.0123	$0.1064	$0.3180	$0.4367
	2012	$0.0311	$0.0975	$0.3088	$0.4374
MECO-Maui	2008	$0.0158	$0.2243	$0.1342	$0.3743
	2009	$0.0193	$0.0779	$0.1342	$0.2314
	2010	$0.0145	$0.1399	$0.1342	$0.2886
	2011	$0.0131	$0.0818	$0.2942	$0.3890
	2012	$0.0197	$0.1178	$0.2658	$0.4032
MECO-Molokai	2008	$0.0180	$0.2239	$0.1744	$0.4163
	2009	$0.0153	$0.0894	$0.1744	$0.2791
	2010	$0.0167	$0.1576	$0.1744	$0.3486
	2011	$0.0144	$0.0883	$0.3562	$0.4589
	2012	$0.0198	$0.1449	$0.3179	$0.4826
MECO-Lanai	2008	$0.0174	$0.2288	$0.1806	$0.4269
	2009	$0.0146	$0.0948	$0.1806	$0.2901
	2010	$0.0160	$0.1737	$0.1806	$0.3704
	2011	$0.0151	$0.0965	$0.3428	$0.4544
	2012	$0.0206	$0.1190	$0.3441	$0.4836
KIUC	2008	$0.0011	$0.2634	$0.1749	$0.4394
	2009	$0.0003	$0.0781	$0.1749	$0.2533
	2010	-$0.0003	$0.0062	$0.3474	$0.3534
	2011	$0.0003	$0.0927	$0.3651	$0.4581
	2012	$0.0005	$0.0799	$0.3651	$0.4455

Figure 11a. HECO residential rate

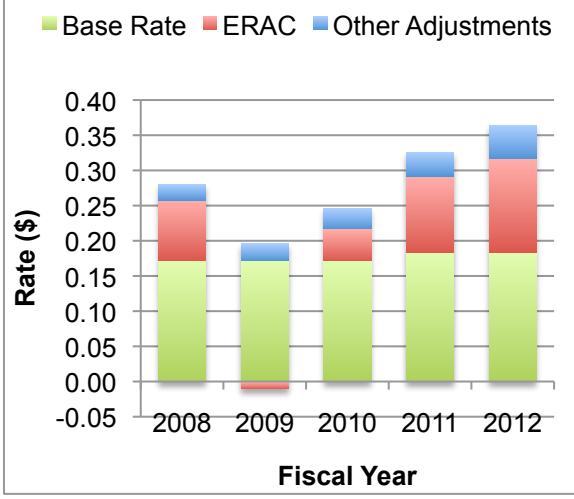


Figure 11b. HELCO residential rate

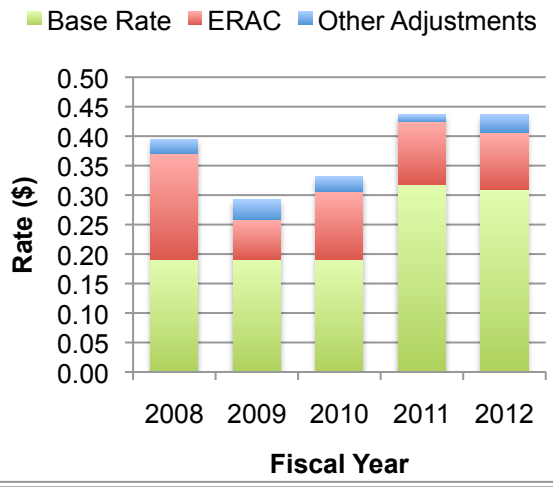


Figure 11c. MECO - Maui residential rate

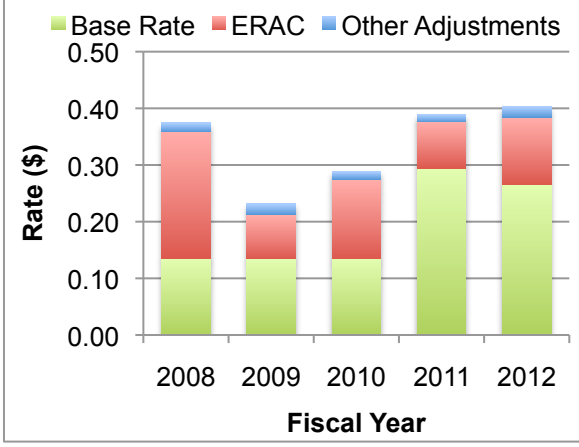


Figure 11e. MECO - Lanai residential rate

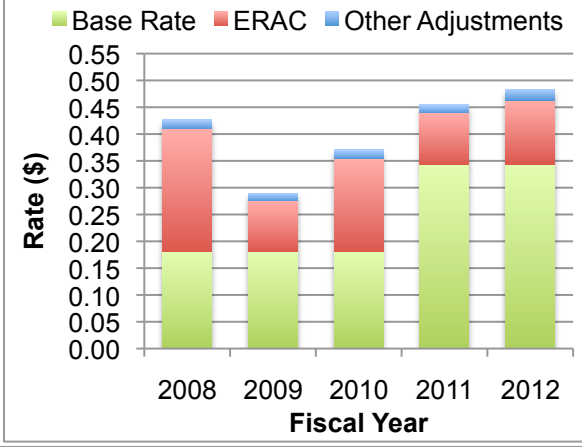


Figure 11d. MECO - Molokai residential rate

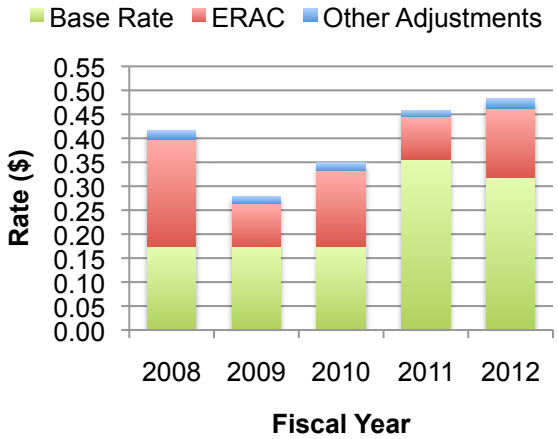


Figure 11f. KIUC residential rate

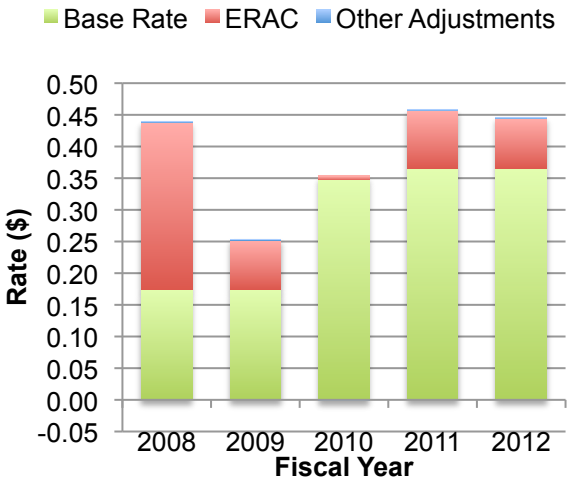


Table 13. HECO revenue and sales information.

HECO Revenue ($)					
Rate Class of Service	Schedule	2008	2009	2010	2011
Residential	R	591,916,760	436,110,863	503,302,201	616,782,447
General Service Non Demand	G	109,559,582	78,133,535	87,804,928	112,147,809
General Service Demand	J/U	524,945,559	376,874,442	458,866,758	595,029,684
Commercial Cooking, Heating and Refrigeration	H	9,603,862	6,208,829	6,844,855	1,087,752
Primary Power	P	702,291,983	474,981,413	579,874,758	767,952,978
Public Street & Highway, Parks & Playground	F	9,925,347	6,899,120	8,634,769	10,858,667
Total		1,948,243,093	1,379,208,202	1,645,328,269	2,103,859,337

KWH Sales					
Rate Class of Service	Schedule	2008	2009	2010	2011
Residential	R	2,060,530,000	2,012,659,711	1,975,743,141	1,924,674,216
Residential- Time of Use	R-T				279,253
General Service Non Demand	G	368,376,000	343,584,616	326,820,117	334,709,317
GS ND Time of Use	G-T				13,741
General Service Demand	J/U	2,074,401,000	2,035,129,386	2,020,686,510	2,053,784,731
Commercial Cooking, Heating and Refrigeration	H	37,685,000	33,597,564	30,351,374	4,455,929
Primary Power	P	3,020,043,000	2,903,722,726	2,886,872,794	2,888,431,420
Public Street & Highway, Parks & Playground	F	37,791,000	36,224,369	36,754,915	35,961,951
Residential - Employees	E		12,618,751		
Traffic Lights	G	3,812,000			
Total		7,602,638,000	7,377,537,123	7,277,228,851	7,242,310,558

Average Retail Price ($)					
Rate Class of Service	Schedule	2008	2009	2010	2011
Residential	R	0.288	0.216	0.255	0.320
Residential- Time of Use	R-T				0.318
General Service Non Demand	G	0.296	0.227	0.269	0.335
GS ND Time of Use	G-T				0.319
General Service Demand	J/U	0.254	0.185	0.227	0.290
Commercial Cooking, Heating and Refrigeration	H	0.257	0.185	0.226	0.244
Primary Power	P	0.234	0.164	0.201	0.266
Public Street & Highway, Parks & Playground	F	0.262	0.190	0.235	0.302
Residential - Employee	E		0.148		
Traffic Lights	G	0.316			
Weighted Average		0.257	0.187	0.226	0.290

Table 14. HELCO revenue and sales information

Revenue ($)					
Rate Class of Service	Schedules	2008	2009	2010	2011
Residential	R	179,312,300	142,929,479	151,315,142	178,901,275
General Service Non Demand	G	174,174,879	131,793,984	145,370,658	176,357,029
Commercial Cooking, Heating, Refrigeration	H	5,102,928	3,556,955	3,569,997	3,972,883
Primary Power	P	83,659,245	62,303,375	68,992,167	81,911,904
Public Street & Highway, Parks & Playground	F	1,814,740	1,472,695	1,656,338	2,043,268
Electric Service for Employees	E	1,149,817	925,047	841,846	2,458
Total		445,213,909	342,981,535	371,746,148	443,188,817

KWH Sales					
Rate Class of Service	Schedules	2008	2009	2010	2011
Residential	R	441,414,000	435,980,838	427,515,914	426,794,270
General Service Non Demand	G	453,123,000	424,962,456	427,551,624	430,872,437
Commercial Cooking, Heating, Refrigeration	H	in G	11,653,246	10,628,892	9,844,990
Primary Power	P	241,859,000	238,429,894	235,781,967	231,081,220
Public Street & Highway, Parks & Playground	F	4,634,000	4,761,741	4,878,210	4,980,507
Residential - Employees	E	in R	4,093,126	3,426,047	-1,567
Total		1,141,030,000	1,119,881,301	1,109,782,654	1,103,573,424

Average Retail Price ($)					
Rate Class of Service	Schedules	2008	2009	2010	2011
Residential	R	0.407	0.328	0.354	0.419
General Service Non Demand	G	0.394	0.310	0.340	0.409
Commercial Cooking, Heating, Refrigeration	H	0.387	0.305	0.336	0.404
Primary Power	P	0.343	0.261	0.293	0.354
Public Street & Highway, Parks & Playground	F	0.391	0.309	0.340	0.410
Residential - Employee	E	0.281	0.226	0.246	
Weighted Average		0.388	0.306	0.335	0.402

Table 15. MECO Revenue and sales information

Revenue ($)					
Rate Class of Service	Schedule	2008	2009	2010	2011
Residential	R	161,649,760	109,988,851	125,495,096	150,966,662
General Service Non Demand	G	40,221,109	27,232,606	32,136,523	38,900,630
General Service Demand	J/U	102,892,197	66,257,301	74,905,702	91,486,516
Commercial Cooking, Heating and Refrigeration	H	7,752,588	4,928,816	5,596,138	6,880,610
Primary Power	P	135,369,575	85,873,957	103,189,423	127,083,781
Public Street & Highway, Parks & Playground	F	2,124,178	1,450,154	1,726,508	2,132,210
Electric Service for Employees	E	1,032,685	701,554	512,375	
Total		451,042,092	296,433,239	343,561,765	417,450,409

KWH Sales					
Rate Class of Service	Schedule	2008	2009	2010	2011
Residential	R	436,531,000	424,069,500	421,062,962	417,926,076
General Service Non Demand	G	401,386,000	94,179,648	97,186,107	98,794,926
General Service Demand	J/U	in G	262,653,469	255,964,952	255,319,228
Commercial Cooking, Heating and Refrigeration	H	in G	19,149,156	18,801,182	18,886,908
Primary Power	P	401,082,000	382,286,450	390,171,591	383,959,272
Public Street & Highway, Parks & Playground	F	6,021,000	6,031,440	6,109,144	6,139,315
Residential - Employees	E	in R	3,873,773	2,262,998	
Total		1,245,020,000	1,192,243,436	1,191,558,936	1,181,025,725

Average Retail Price ($)					
Rate Class of Service	Schedule	2008	2009	2010	2011
Residential	R	0.374	0.259	0.298	0.361
General Service Non Demand	G	0.377	0.289	0.331	0.394
General Service Demand	J/U		0.252	0.293	0.358
Commercial Cooking, Heating and Refrigeration	H		0.257	0.298	0.364
Primary Power	P	0.339	0.225	0.264	0.331
Public Street & Highway, Parks & Playground	F	0.354	0.240	0.283	0.347
Residential - Employee	E		0.181	0.226	
Weighted Average		0.364	0.249	0.288	0.353

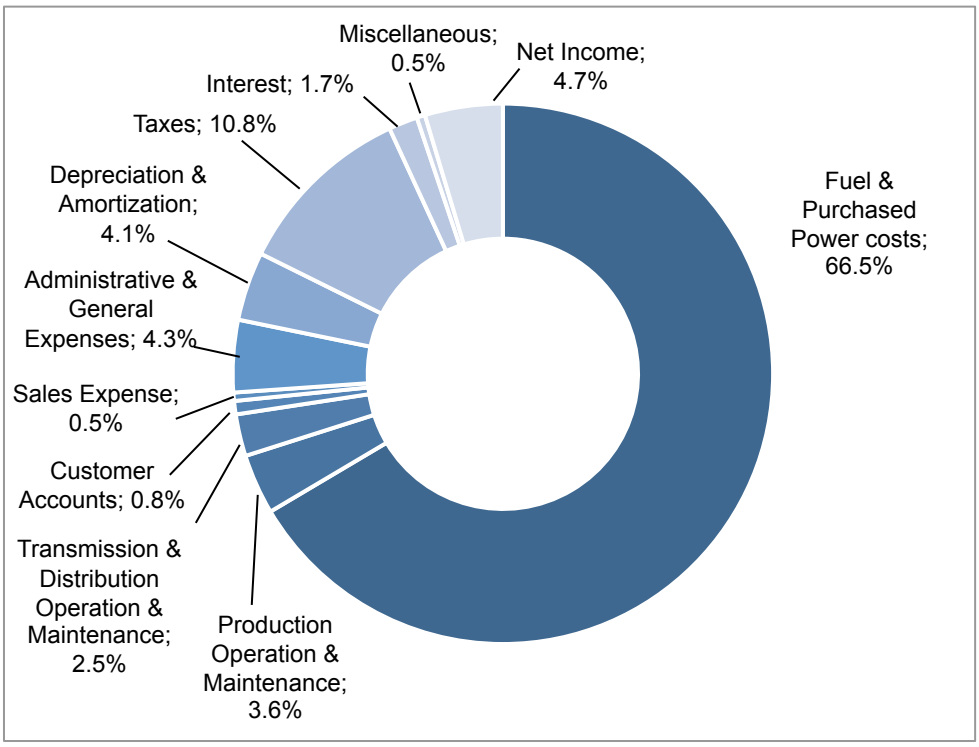
Table 16. KIUC revenue and sales information

Revenue ($)					
Rate Class of Service	Schedules	2008	2009	2010	2011
Residential	D	67,521,772	48,759,892	58,599,648	69,031,915
General Lighting Service	G	27,098,626	18,738,834	22,536,553	26,468,791
General Lighting Service	J	23,757,990	15,861,517	18,708,703	21,485,166
Large Power	P	48,260,251	32,715,713	38,937,220	46,579,473
Large Power	L	20,939,501	11,999,215	14,896,041	17,238,659
Streetlight	SL	1,457,504	1,160,789	1,381,050	1,573,722
Irrigation		415,411	264,087	35,886	33,626
Total		189,451,055	129,500,047	155,095,101	182,411,352

KWH Sales					
Rate Class of Service	Schedules	2008	2009	2010	2011
Residential	D	160,479,367	161,946,254	159,425,808	159,071,128
General Lighting Service	G	61,762,667	58,775,630	59,481,202	59,790,431
General Lighting Service	J	57,561,387	54,387,913	53,235,877	51,859,338
Large Power	P	118,083,102	114,413,017	114,521,985	116,823,510
Large Power	L	52,082,601	42,638,562	44,990,571	44,379,446
Streetlight	SL	2,637,376	2,702,271	2,729,677	2,716,421
Irrigation		1,184,017	1,409,589	148,199	104,788
Total		453,790,517	436,273,236	434,533,319	434,745,062

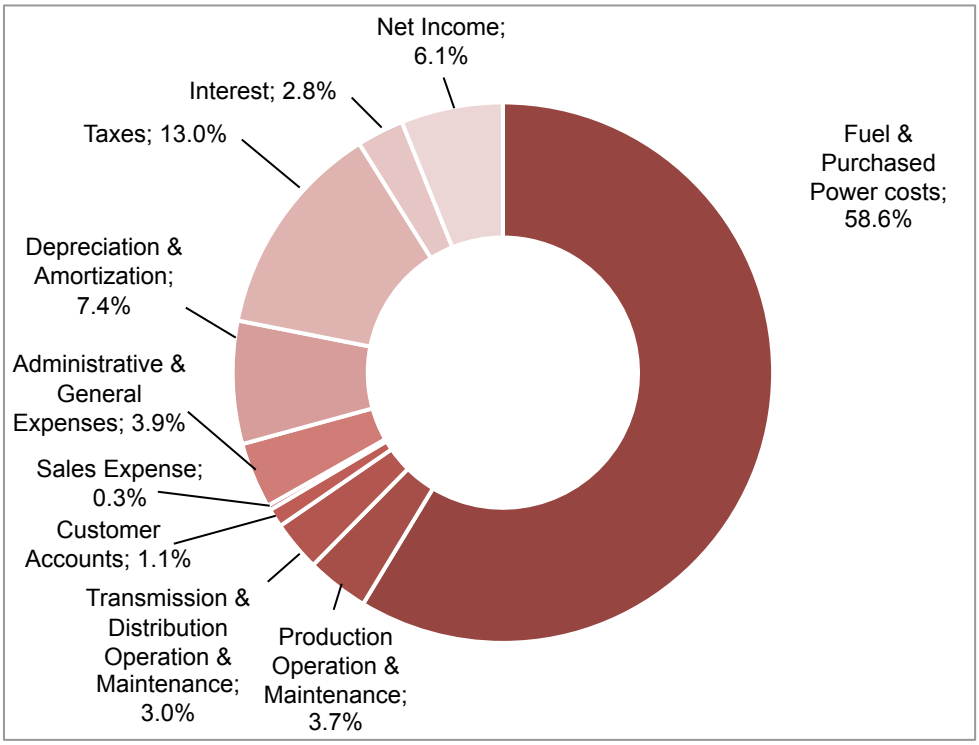
Average Retail Price ($)					
Rate Class of Service	Schedules	2008	2009	2010	2011
Residential	D	0.421	0.301	0.368	0.434
General Lighting Service	G	0.439	0.319	0.379	0.443
General Lighting Service	J	0.413	0.292	0.351	0.414
Large Power	P	0.409	0.286	0.34	0.399
Large Power	L	0.402	0.281	0.331	0.388
Streetlight	SL	0.553	0.43	0.506	0.579
Irrigation		0.351	0.187	0.242	0.321

Figure 12a. HECO total revenue breakdown for the 2011 calendar year



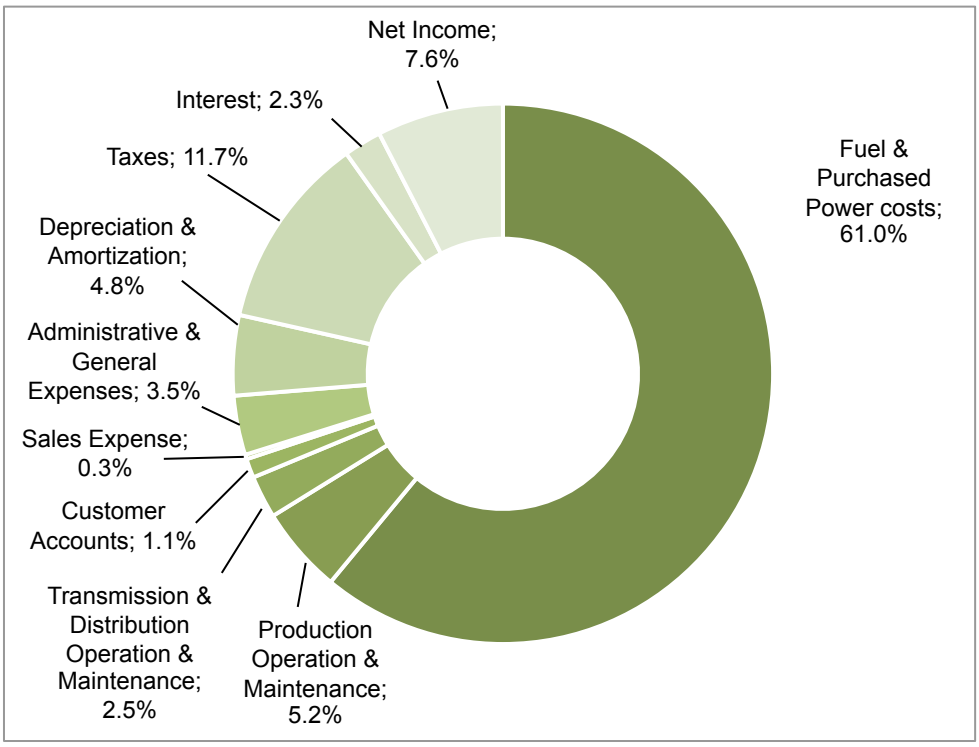
Source: 2011 Annual Report of HECO

Figure 12b. HELCO total revenue breakdown for the 2011 calendar year



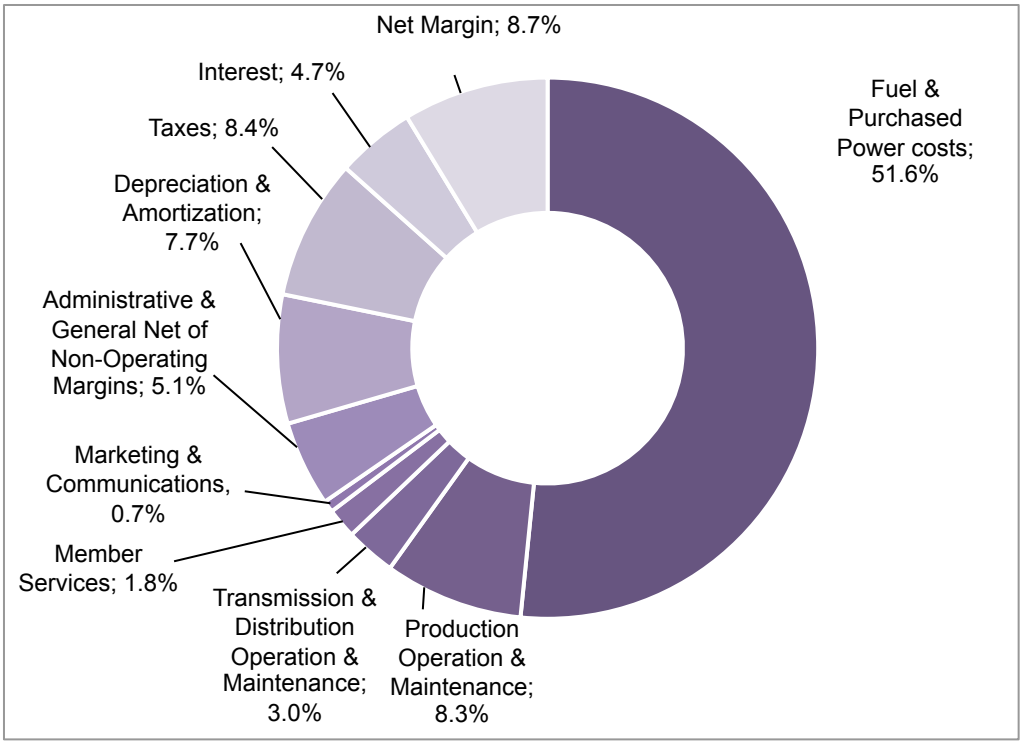
Source: 2011 Annual Report of HELCO

Figure 12c. MECO total revenue breakdown for the 2011 calendar year



Source: 2011 Annual Report of MECO

Figure 12d. KIUC Total revenue breakdown

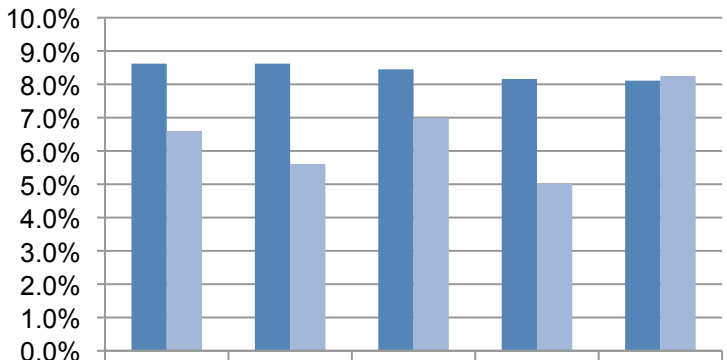


Source: KIUC Currents May 2012. For the period 01/01/2012-02/29/2012

Rates of Return for Utility Companies

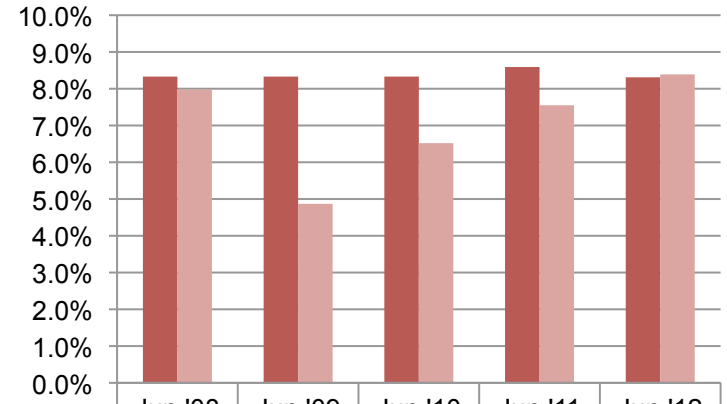
As shown in Figure 13a-e, HECO and HELCO have been earning close to their authorized rate of return, while MECO and TGC have not been earning their authorized rate of return. KIUC uses a times interest earned ratio ("TIER"), which they converted to in 2002.

Figure 13a. HECO Rate of Return



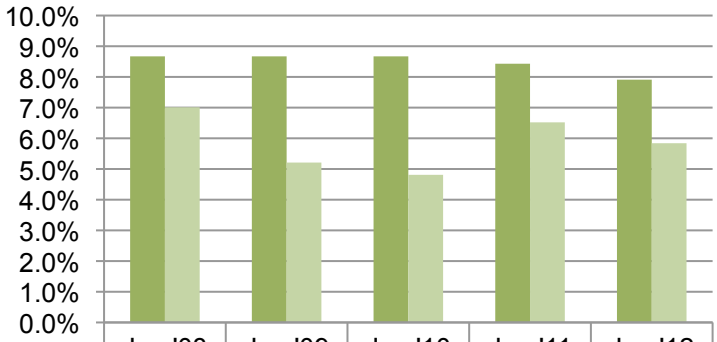
	Jun '08	Jun '09	Jun '10	Jun '11	Jun '12
Authorized ROR	8.62%	8.62%	8.45%	8.16%	8.11%
Ratemaking ROR	6.60%	5.61%	6.98%	5.02%	8.25%

Figure 13b. HELCO rate of return



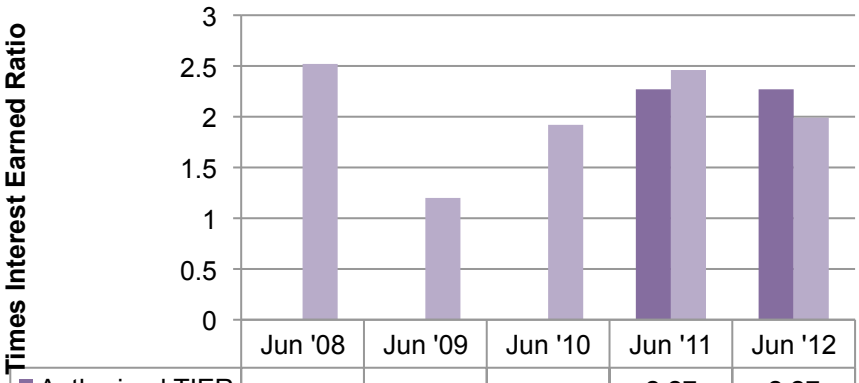
	Jun '08	Jun '09	Jun '10	Jun '11	Jun '12
Authorized ROR	8.33%	8.33%	8.33%	8.59%	8.31%
Ratemaking ROR	7.98%	4.87%	6.52%	7.55%	8.39%

Figure 13c. MECO rate of return



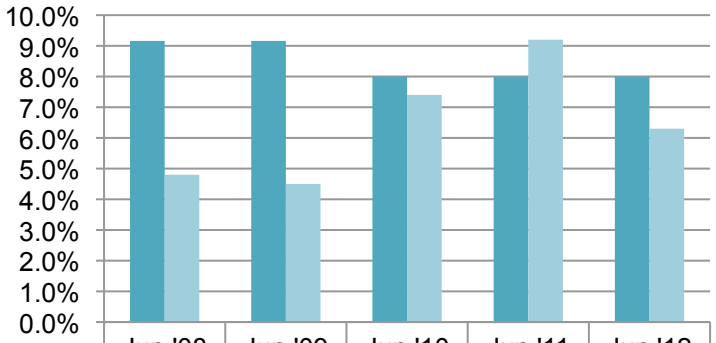
	Jun '08	Jun '09	Jun '10	Jun '11	Jun '12
Authorized ROR	8.67%	8.67%	8.67%	8.43%	7.91%
Ratemaking ROR	7.01%	5.21%	4.81%	6.52%	5.84%

Figure 13d. KIUC TIER



	Jun '08	Jun '09	Jun '10	Jun '11	Jun '12
Authorized TIER				2.27	2.27
TIER	2.52	1.2	1.92	2.46	1.99

Figure 13e. The Gas Company rate of return



	Jun '08	Jun '09	Jun '10	Jun '11	Jun '12
Authorized ROR	9.16%	9.16%	8.00%	8.00%	8.00%
Ratemaking ROR	4.80%	4.50%	7.40%	9.20%	6.30%

Forecasted Capital Improvements

Figure 14. Forecasted totals for energy utility capital improvement projects

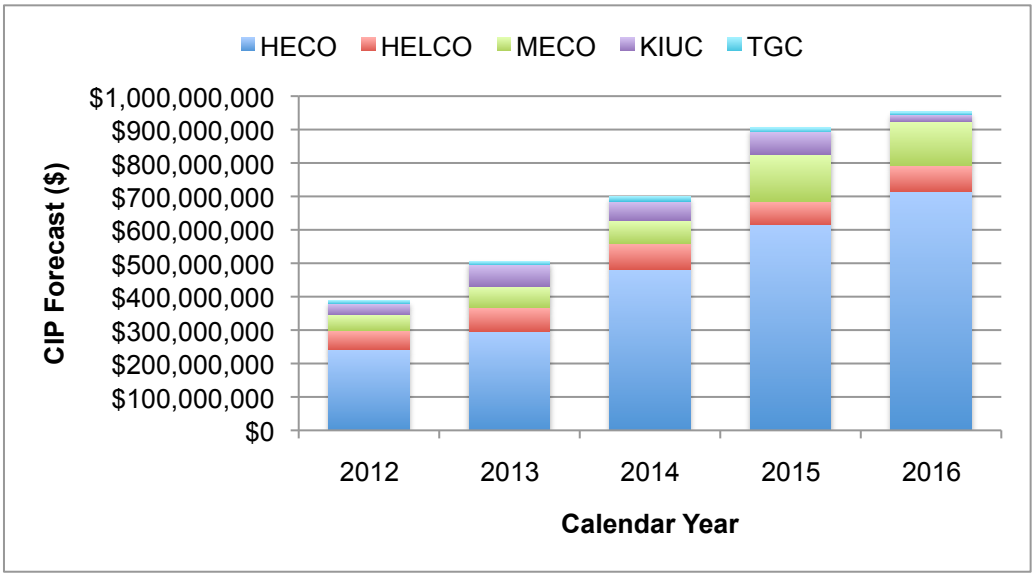


Table 17. Forecasted totals for energy utility capital improvement projects

	2012	2013	2014	2015	2016
HECO	$242,000,000	$297,000,000	$482,000,000	$616,000,000	$715,000,000
HELCO	$57,000,000	$71,000,000	$78,000,000	$70,000,000	$77,000,000
MECO	$47,000,000	$62,000,000	$67,000,000	$140,000,000	$132,000,000
KIUC	$33,791,400	$66,106,800	$59,067,000	$67,657,500	$21,529,900
Total CIP - Electricity	**$379,791,400**	**$496,106,800**	**$686,067,000**	**$893,657,500**	**$945,529,900**
The Gas Company	$10,066,000	$10,284,000	$14,914,000	$11,855,000	$7,602,000
Total CIP - All Energy Utilities	**$389,857,400**	**$506,390,800**	**$700,981,000**	**$905,512,500**	**$953,131,900**

Electric Utility CIPs

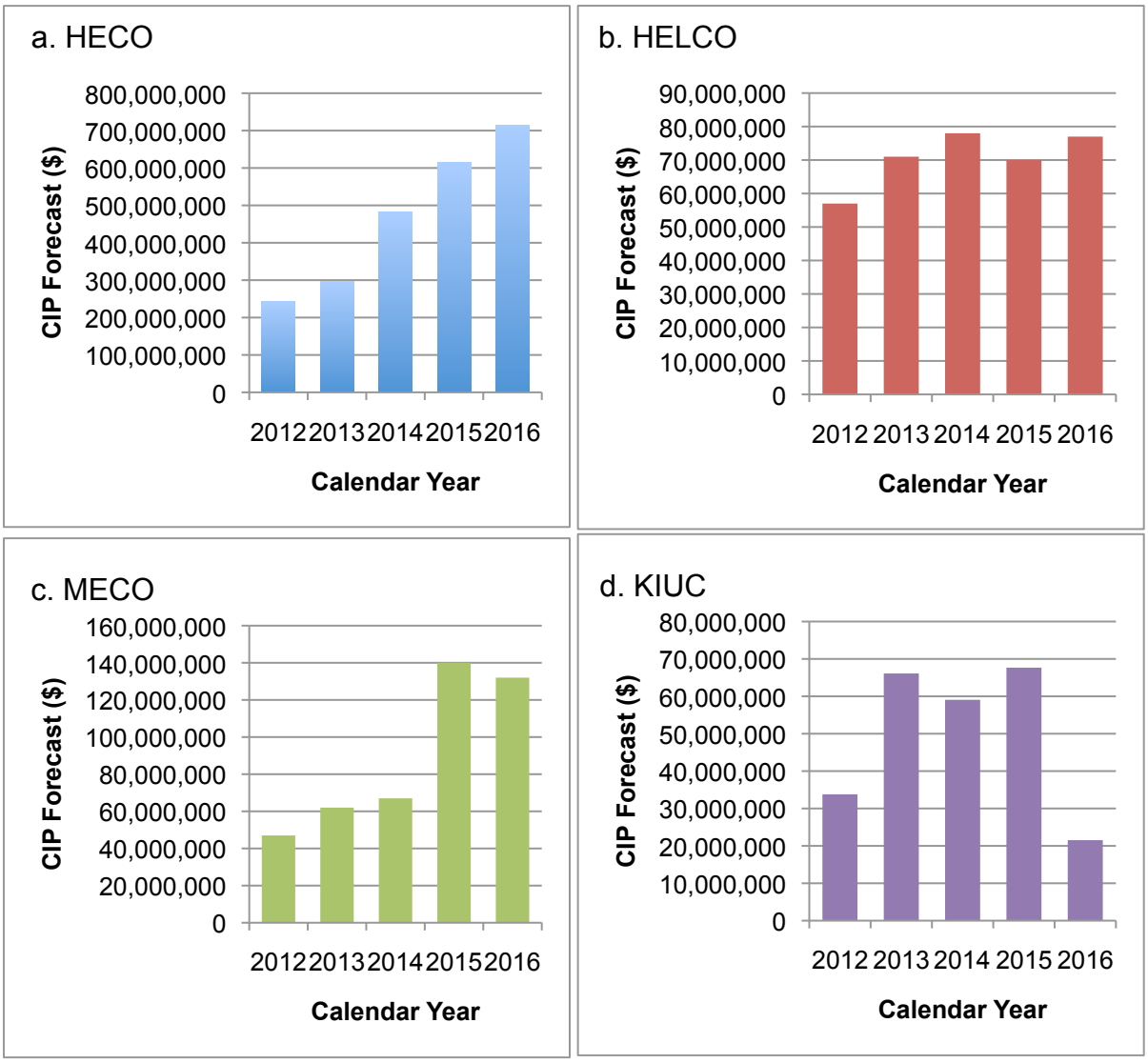
The total 2012 capital expenditure budget forecasted for HECO is approximately $194 million. The Capital Improvement Projects ("CIPs") in HECO's 2012 budget exceeding one million dollars include fifteen Energy Delivery projects, three Clean Energy projects, and ten Power Supply projects.

The total 2012 capital expenditure budget forecasted for HELCO is approximately $57 million. HELCO's more than one million dollars CIPs for 2012 include five Energy Delivery projects, one Clean Energy projects, and two Power Supply projects and two projects under "Other" category.

The total 2012 capital expenditure budget forecasted for MECO is approximately $47 million. The CIPs more than one million dollars in MECO's 2012 budget include five Energy Delivery projects and six Power Supply projects.

The total 2012 capital expenditure budget forecasted for KIUC is approximately $34 million. KIUC's CIP with budget of one million dollars or above for 2012 include six projects.

Figure 15a-d. Five-year capital expenditure budget forecast for HECO, HELCO, MECO, and KIUC (data listed in Table 17)

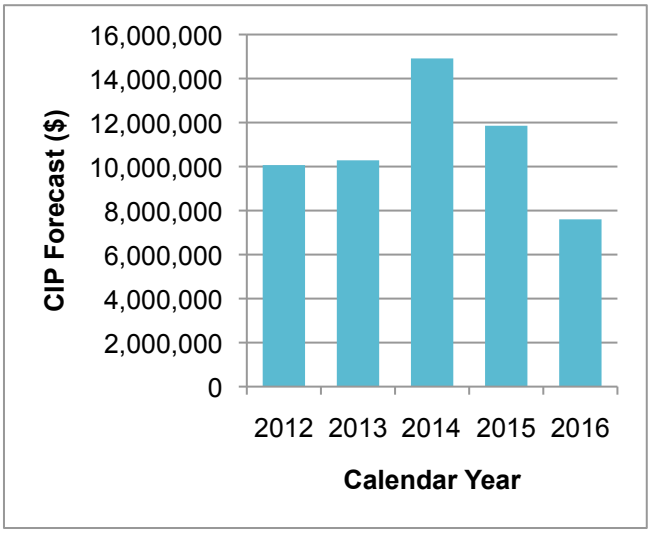


Gas Utility CIPs

The total 2012 capital expenditure budget forecasted for The Gas Company LLC is approximately $10 million. The projects in the TGC 2012 budget than are greater

than one million dollars include LNG Emergency Backup Phase I, Carbonate Solution Pump Efficiency Improvement, Blanket Project for all Main Renewable >10'.

Figure 16. Five-year capital expenditures forecast for The Gas Company



Telecommunication Rates

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

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

Table 18. Hawaiian Telcom rates

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

Utility Company Performance

Fuel mix and RPS

For a review of utility achievements to meet RPS goals, please see the Legislative Mandates section of this report.

Electric Utilities Reliability and Service Quality

The following electric utility service quality report was based on or excerpted directly from the 2011 Service Reliability Report submitted to the Commission by HECO, MECO, HELCO, and KIUC. The report covers the 2011 calendar year ("2011"). A complete copy is available for review at the Commission's office or the Commission's website (http://puc.hawaii.gov/industries/Energy/reports).

The reliability indices are calculated using the data from all sustained[30] system outages except customer maintenance outages. If data normalization is required, it is done using the guidelines specified in the report on reliability that was prepared for the Public Utilities Commission, titled "Methodology for Determining Reliability Indices for HECO Utilities," dated December 1990. That report indicates that normalization is allowed for "abnormal" situations such as hurricanes, tsunamis, earthquakes, floods, catastrophic equipment failures, and single outages that cascade into a loss of load greater than ten percent of the system peak load. These normalizations are made in calculating the reliability indices because good engineering design takes into account safety, reliability, utility industry standards, and economics, and cannot always plan for catastrophic events.

Indices measure reliability in terms of the overall availability of electrical service (ASA), the frequency or number of times a company customers experience an outage during the year (SAIF), the average length of time an interrupted customer is out of power (CAID), and the average length of time the company's customers are out of power during the year (SAID). SAID is an indication of overall system reliability because it is the product of SAIF and CAID and incorporates the impact of frequency and duration of outages on the company's total customer base.

To determine the relative level of reliability, the statistics for four prior years, 2007 through 2011, are used for comparison.

HECO Service Quality – Normalized Results

This is the 2011 annual service reliability report of the Hawaiian Electric Company. The average number of electric customers increased from 295,637 in 2010 to 296,679 in 2011 (a 0.23 percent increase). The 2011 peak demand for the system was 1,177 MW (evening peak), 23 MW lower than the peak demand in 2010; the highest system peak demand remains at 1,327 MW set on the evening of October 12, 2004.

The annual service reliability for 2011 was the third best in the past five years in terms of all indices for all events. The reliability results for 2011 and four prior years are

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

shown below in Table 19: Annual Service Reliability Indices – All Events, and Table 20: Annual Service Reliability Indices – with Normalizations. Two outage events were normalized in 2011. All subsequent comparisons and discussion are based on the normalized data.

Table 19. HECO Annual Service Reliability Indices – All Events

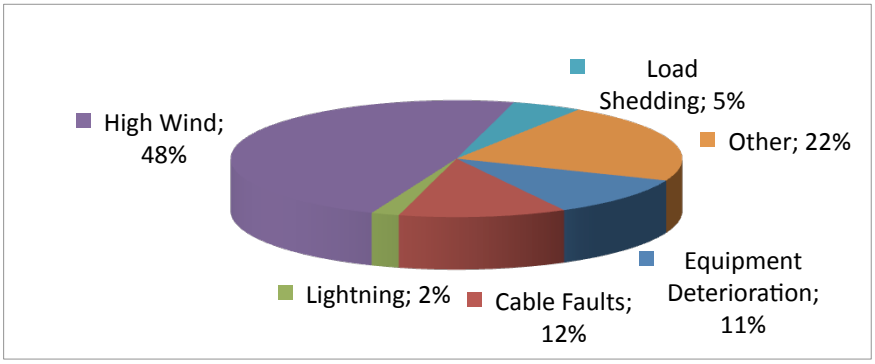
	2007	2008	2009	2010	2011
Number of Customers	293,893	294,371	294,802	295,637	296,679
Customer Interruptions	639,886	729,784	333,908	361,334	502,252
Customer-Hours Interrupted	1,970,925	3,985,756	442,546	564,424	1,257,338
SAID (Minutes)	402.38	812.39	90.08	114.55	254.59
CAID (Minutes)	184.81	327.69	79.52	93.72	150.20
SAIF (Occurrences)	2.177	2.479	1.133	1.222	1.693
ASA (Percent)	99.923	99.846	99.983	99.978	99.952

Table 20. HECO Annual Service Reliability Indices – with Normalization

	2007*	2008**	2009	2010	2011***
Number of Customers	293,892	294,371	294,802	295,637	296,679
Customer Interruptions	367,837	382,124	333,908	361,334	408,326
Customer-Hours Interrupted	488,144	490,842	442,546	564,424	1,044,904
SAID (Minutes)	99.66	100.05	90.08	114.55	211.32
CAID (Minutes)	79.62	77.07	79.52	93.72	153.54
SAIF (Occurrences)	1.252	1.298	1.133	1.222	1.376
ASA (Percent)	99.981	99.981	99.983	99.978	99.960

2007* Data normalized to exclude the 1/29/07 and 02/02/07 High Wind Outages
Data normalized to exclude the 11/04/07 - 11/05/07 and 12/04/07 - 12/06/07 Storms
2008 Data normalized to exclude the 12/10/08 - 12/14/08 High Wind Outages**
Data normalized to exclude the 12/26/08 Island Wide Blackout
2011* Data normalized to exclude the 03/04/11 - 03/11/11 Labor Work Stoppage**
Data normalized to exclude the 05/02/11 - 05/03/11 Lightning Storm

Figure 17. HECO 2011 outage causes



The Top 5 Outage Categories, by number of customers affected, as illustrated in Figure 17, equates to about 78 percent of the total Customer Interruptions in 2011.

Table 21. HECO outage categories and sample causes

	Outage Category	**Sample Causes**
1	High Wind	Objects blown into lines Conductor swing shorts
2	Cable Faults	Underground equipment failures
3	Equipment Deterioration	Failed/broken/corroded equipment
4	Load Shedding	Loss of generation
5	Lightning	Lightning storm

The major cause factors for 2010 were similar, except “Auto Accidents” and “Unknown” were replaced by “Lightning” and “Load Shedding” in 2011.

The total number of customer interruptions in 2011 was 408,329 compared with 361,334 interruptions in 2010. In the five-year period, 2011 was the worst performing year for the number of interruptions. The number of Customer Interruptions due to “Cable Faults” increased from 74,790 in 2010 to 84,523 in 2011, an increase of 13 percent. Although the customer interruptions due to “Cable Faults” increased, the percentage of cable faults versus all interruptions decreased from 18 to 12 percent. The increase in outages due to “High Winds” went from 30,532 in 2010 to 57,562 in 2011, an 89 percent increase. In 2011, the high wind periods in March contributed to the large increase in the number of outages, amounting to 47,231 interruptions. However, the number of Customer Interruptions due to “Equipment Deterioration” decreased from 86,108 in 2010 to 55,216 in 2011, an improvement of 36 percent.

In 2011, there were two events that resulted in the loss of more than 10,000 customers. On November 29, 2011, the island experienced a load shedding event due to the loss of two generating units, affecting 34,464 customers. On June 4, 2011 at 9 p.m., lightning caused the loss of two sub-transmission lines resulting in 10,881 customers losing power for 47 minutes to 2 hours and 3 minutes. In 2010, there were no single events that resulted in the sustained interruptions of more than 10,000 customers.

Figure 18. HECO System Average Interruption Duration Index ("SAIDI") (Lower is better)

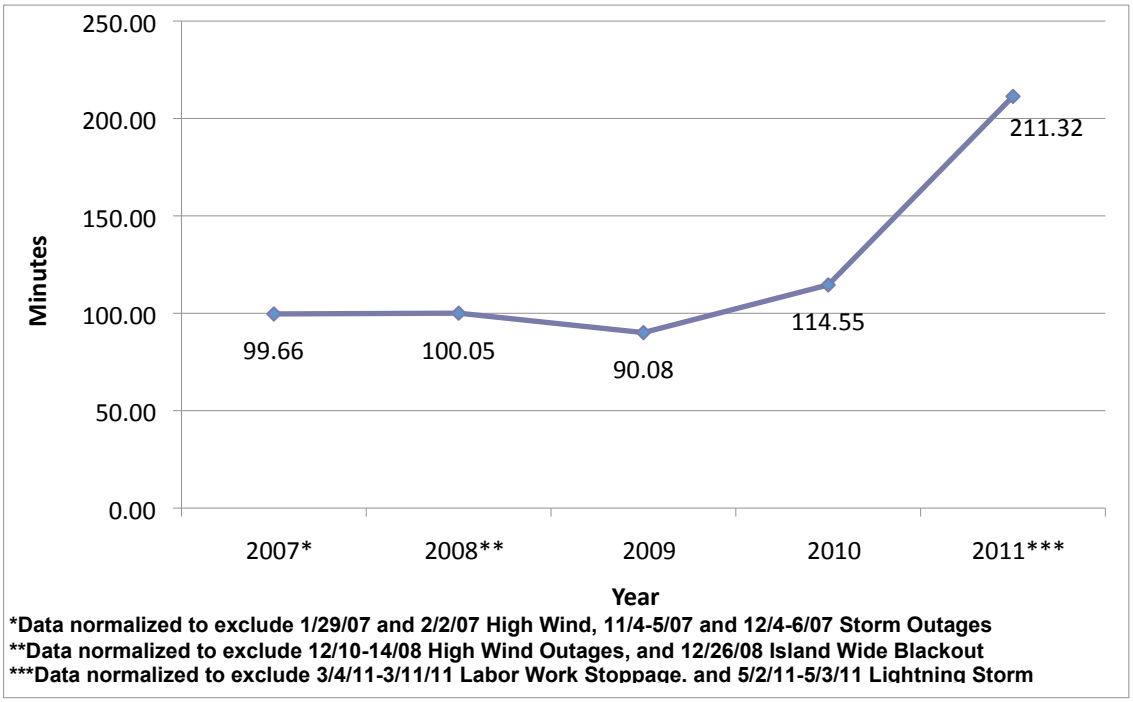


Figure 18 (above) shows the System Average Interruption Duration Indices for the past five years. It shows that the 2011 SAIDI is 211.32 minutes, an 85 percent increase compared to the 2010 SAIDI result of 114.55 minutes. This increase is mainly due to the storm of March 4, 2011. Excluding this storm would reduce the 2011 SAIDI by 100 minutes, bringing the 2011 result to be lower than the 2010 SAIDI results. The SAIDI is the composite of both the SAIFI and CAIDI indices and produces a broader benchmark of system reliability by combining both the duration and the number of customer interruptions during a given period of time. The increase of the SAIDI result was due to the increase in both the CAIDI and SAIFI statistics.

Figure 19. HECO System Average Interruption Frequency Index (SAIFI) (Lower is better)

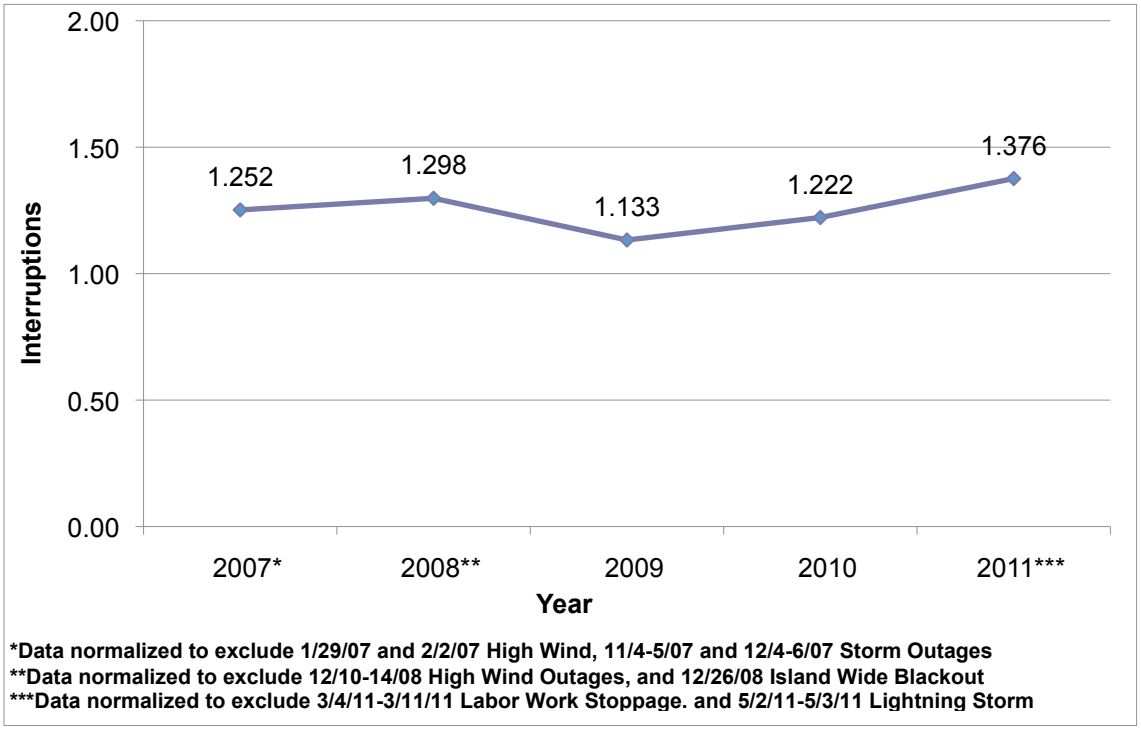


Figure 19 shows the System Average Interruption Frequency Index (SAIFI) for the past five years. It shows that the 2011 SAIFI of 1.376 was the highest index in the past five years, increasing again from the 30 year low of 1.133 in 2009.

Figure 20. HECO Customer Average Interruption Duration Index (CAIDI) (Lower is better)

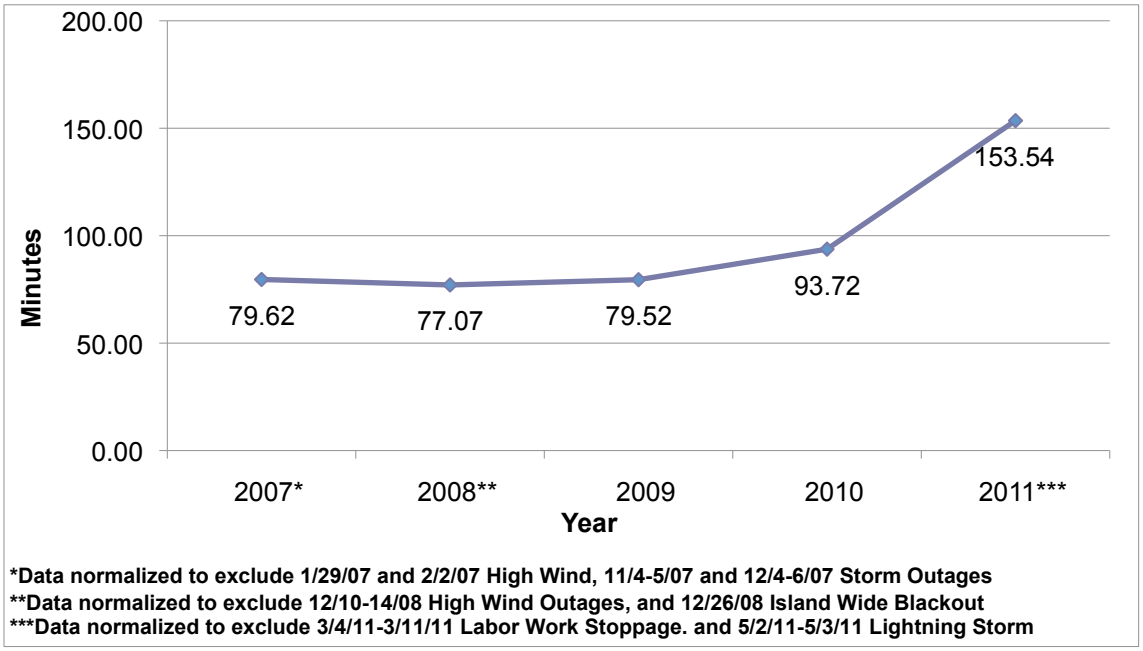


Figure 20 shows the Customer Average Interruption Duration (CAIDI) indices for the past five years. It shows that the average duration of a customer's outage (CAIDI) for 2011 is 153.54 minutes, a 64 percent increase compared to the 2010 CAIDI result of 93.72 minutes. This increase is due mainly to the March 4, 2011 storm. Excluding this storm would reduce the 2011 annual CAIDI by 56 minutes, bringing it on par with the 2010 CAIDI.

The three major events affecting the 2011 CAIDI results were:

- March 4, 2011 – Starting in the early morning, high winds and rainstorms across Oahu, especially on the Windward and Leeward sides of the island, caused numerous outages to over 43,000 customers. As stated in the letter to the Commission, dated April 29, 2011, "[a]t one point during the storm, approximately 14,000 customers were reported as being without electrical service." These outages ranged in length from 39 minutes to the lengthiest duration of 6 days, 14 hours, and 24 minutes affecting 5 customers, where a felled tree took down 15 utility poles along Fort Weaver Road.

  In addition, a strike by the company's bargaining employees commenced at 3:30 p.m. on March 4th and ended on March 11th, hampered restoration efforts. Management and contracted personnel were mobilized to the affected areas to respond to the outages. For the purpose of this report, outages occurring after 3:30 p.m. on March 4, 2011 were normalized out, as noted in Table 20.

- March 12, 2011 – A wooden pole fell on School Street in the Kalihi area affecting 1,388 customers from 34 minutes to 17 hours and 28 minutes.

- June 3, 2011 - June 4, 2011 – A lightning storm over the island of Oahu affected about 19,228 customers from 47 minutes to 3 days, 10 hours and 17 minutes.

2011 experienced a large variety of storms from lightning storms spanning days and tens of thousands of land strikes, to excessive high wind situations and high winds blowing against their normal flow direction.

Figure 21. HECO Average Service Availability (ASA) (Higher is better)

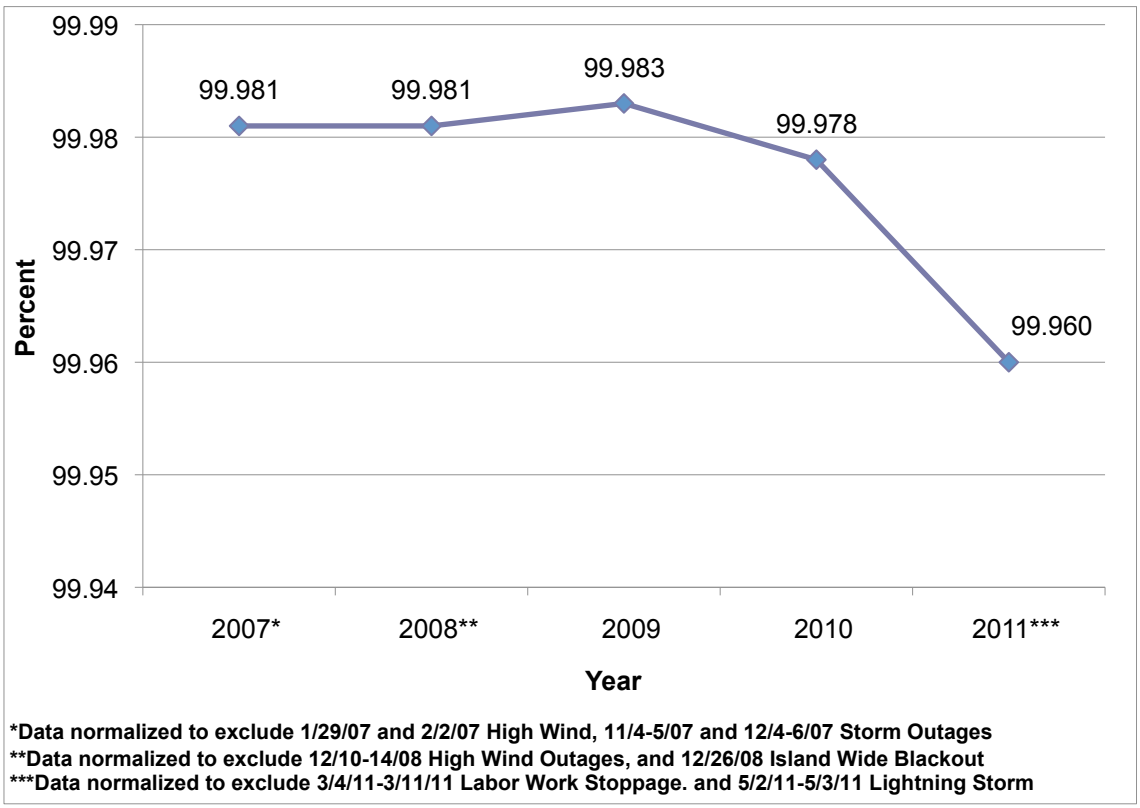


Figure 21 shows that the 2011 ASAI index decreased when compared to the 2010 results after a period of increases (higher is better) from 2007 to 2009. Approximately 46,995 more customers experienced sustained service interruptions during 2011 compared to the previous year, an increase of 13 percent, thus causing the ASAI to decrease from 99.978 to 99.960 percent.

HELCO 2011 Service Quality – Normalized and non-normalized results.

The following HELCO electric utility service quality discussion is based on or excerpted directly from the HELCO Annual Service Reliability Report 2011 submitted to the Commission by HELCO. The report covers the 2011 calendar year. A complete copy is available for review at the Commission's office.

The average customer count increased 0.79 percent from 80,171 in 2010, to 80,807 in 2011.

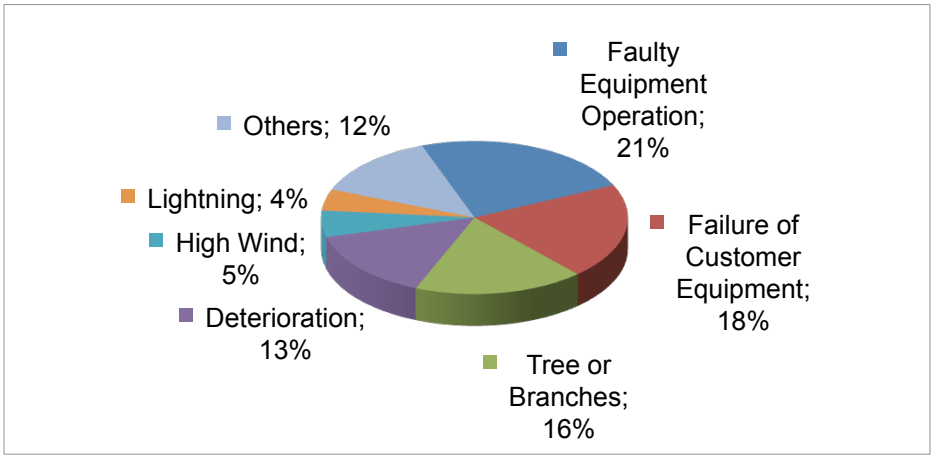
On a Not-Normalized basis, in 2011 a total of 290,616 Customer Interruptions were recorded for a total of 242,120 Customer Hours of Interruption. The System Average Interruption Frequency (SAIF) index was 3.596 and the Customer Average Interruption Duration (CAID) was 49.99 minutes.

On the Normalized basis, a total of 236,688 Customer Interruptions were recorded for a total of 232,981 Customer Hours of Interruptions. The System Average Interruption Frequency (SAIF) index was 2.929 and the Customer Average Interruption Duration (CAID) was 59.06 minutes.

On a Not-Normalized basis, the following were the leading causes of customer interruptions in 2011:

1. **Faulty Equipment Operation.** There were 61,594 Customer Interruptions, 56,071 (91 percent) of those were related to HELCO Generation.
2. **Failure of Customer Equipment.** There were 53,778 Customer Interruptions, 53,775 (nearly 100 percent) of those were related to Independent Power Producers (non-HELCO Generation).
3. **Trees and Branches.** There were 45,152 Customer Interruptions.
4. **Deterioration.** There were 37,112 Customer Interruptions.

Figure 22. HELCO 2011 causes of interruption



There were 109,846 generation-related Customer Interruptions in 2011, of which 56,071 were related to HELCO generation sources (51 percent) and 53,775 were related to Independent Power Producer (non-HELCO Generation) sources (49 percent).

In 2011, HELCO generation sources experienced ten load shedding events. HELCO generation experienced six load shed events, Puna Geothermal Ventures experienced two load shed events, and Hamakua Energy Partners (“HEP”) experienced two load shed events.

HELCO normalized data per guidelines specified in a special report on reliability prepared for the Public Utilities Commission. This report, "Methodology for Determining Reliability Indices for HECO Utilities," dated December 1990, indicates that normalization may be utilized for "abnormal" situations such as hurricanes, tsunamis, earthquakes, floods, catastrophic equipment failures, and a single equipment outage that cascades into a loss of load that is greater than ten percent of the system peak load. HELCO normalized three events in 2011:

- Underfrequency Loadshedding event on June 30 due to Keahole CT4 tripping off-line resulted in 12,643 Customer Interruptions and 1,963 Customer Hours of Interruption.
- Underfrequency Loadshedding event on July 16 due to Keahole CT-5 and ST-7 tripping off-line resulted in 14,999 Customer Interruptions and 1,052 Customer Hours of Interruption.

- Underfrequency Loadshedding event on August 2 due to Hamakua Energy Partners (HEP) CT1, CT2 and ST resulted in 26,286 Customers Interruptions and 6,124 Customer Hours of Interruption.

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

Table 22. HELCO significant interruptions in 2011 that did not meet normalization criteria

Date	**Problem**	**CI**	**CID**
January 4	Motor vehicle accident along Kahakai Blvd.	1,689	9,290
January 7	Distribution overhead conductors sagging due to pole deterioration	2,763	6,961
February 24	Lightning affecting distribution circuit.	2,941	6,961
May 17	Transformer failure at Waimea Substation.	1,991	6,935
May 26	Complete permanent repairs for transformer failure at Waimea Substation.	1,991	7,918
October 25	Underfrequency loadshedding – Puna Geothermal Ventures tripped offline.	12,482	719
November 11	Substation flashover affecting distribution circuits.	1,716	5,934
November 16	Substation flashover affecting distribution circuits.	21,347	2,509
November 17	Scheduled maintenance at Waimea Substation and Kohala Mountain transmission circuit.	1,990	15,218
November 26	High winds affecting transmission circuit.	14,599	2,915
December 17	Deterioration affecting transmission circuit.	18,712	616
	Total	**82,221**	**65,192**

Table 23. HELCO normalized service quality data

Year	**ASA**	**Number of Customers**	**Customer Interruptions**	**CID**	**SAIF**	**CAID**
2006	99.971	75,353	188,602	190,061	2.503	60.46
2007	99.961	77,933	208,000	269,475	2.669	77.73
2008	99.973	79,386	179,862	189,156	2.266	63.10
2009	99.972	79,679	246,437	197,371	3.093	48.05
2010	99.946	80.171	176,622	169,522	2.203	57.59
2011	99.967	80.807	236,688	232,891	2.929	59.06

Table 24. HELCO not-normalized service quality data

Year	ASA	Number of Customers	Customer Interruptions	CID	SAIF	CAID
2006	99.950	75,353	341,289	328,758	4.529	57.80
2007	99.955	77,933	257,924	305,681	3.310	71.11
2008	99.973	79,386	194,807	190,314	2.454	58.62
2009	99.965	79,679	298,334	246,916	3.744	49.66
2010	99.970	80.171	302,402	207,607	3.772	41.19
2011	99.966	80,807	290,616	242,120	3.596	49.99

Figure 23. HELCO System Average Interruption Frequency (SAIF) (Lower is better)

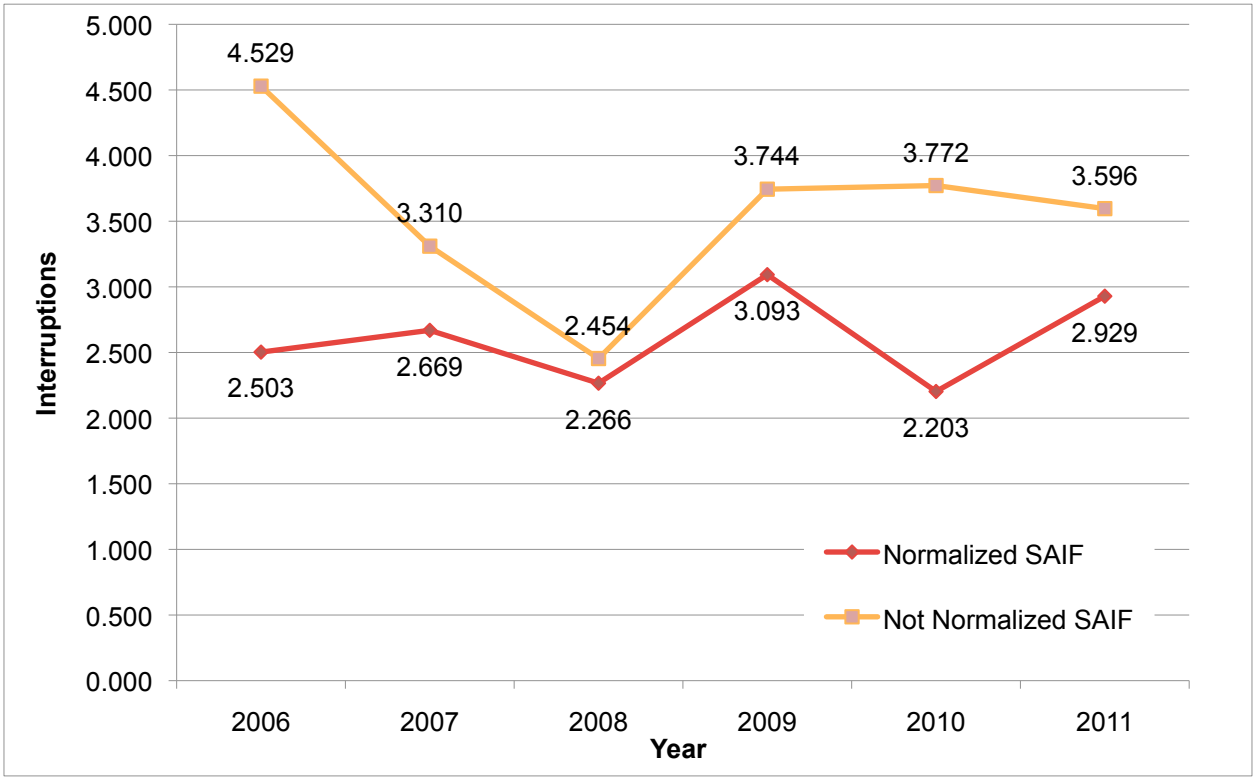


Figure 24. HELCO Customer Average Interruption Duration (CAID) (Lower is better)

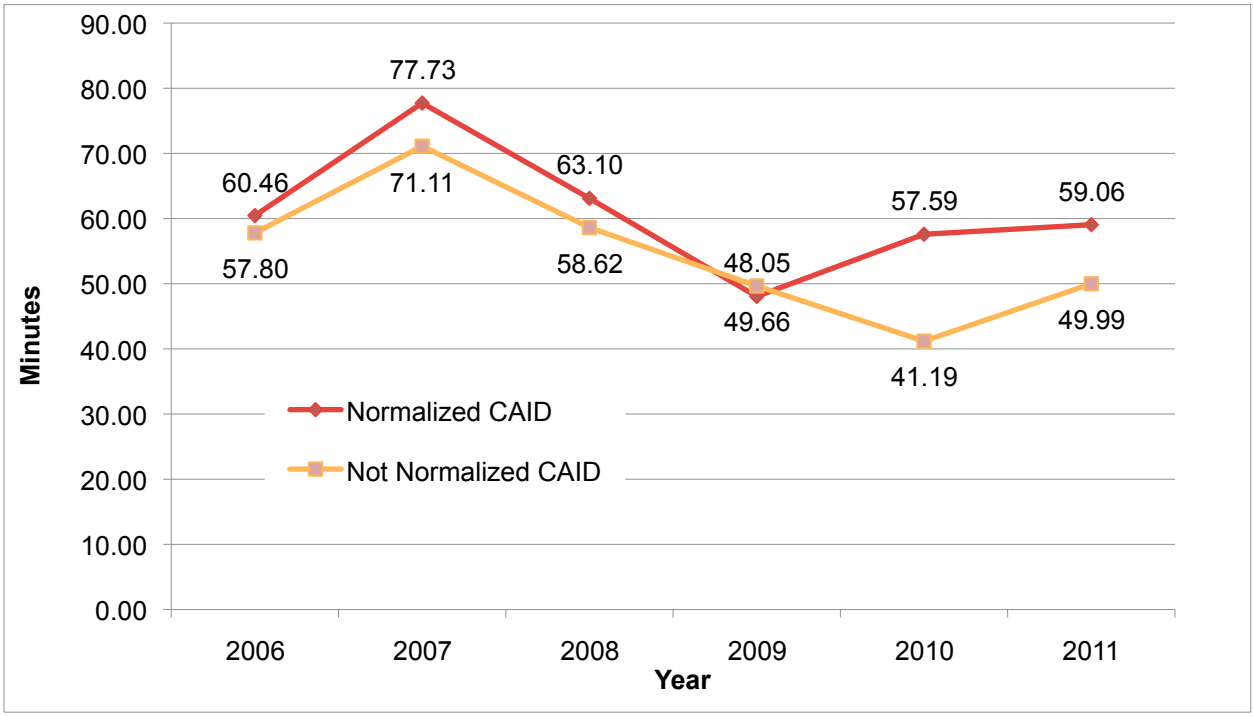
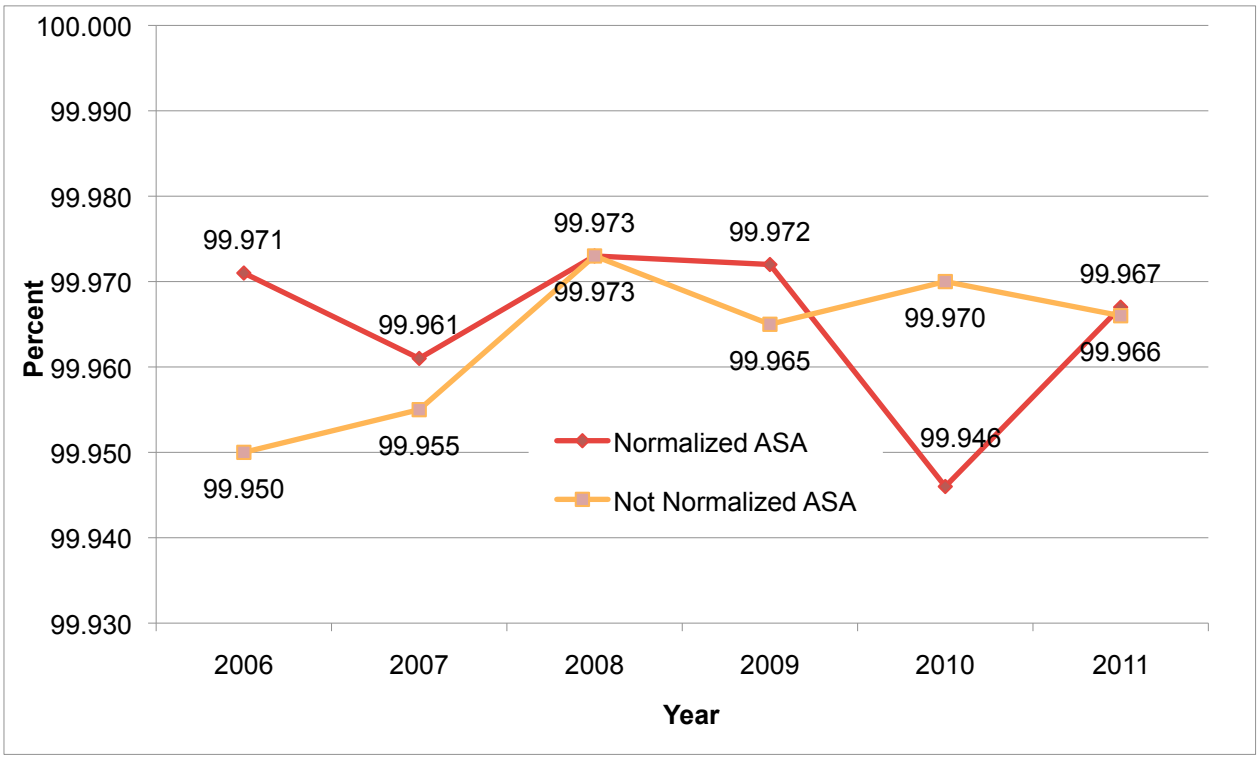


Figure 25. HELCO Average Service Availability (ASA) (Higher is better)



MECO 2011 Service Quality – Normalized and Non-Normalized Results.

The following MECO electric utility service quality discussion is based on or excerpted directly from the MECO Annual Service Reliability Report 2011 submitted to the Commission by MECO. The report covers the 2011 calendar year. A complete copy is available for review at the Commission's office.

The average number of electric customers increased from 67,405 in 2010 to 68,010 in 2011 (an increase of 0.90 percent). The peak 2011 demand for the system was 194.1 MW (gross) that occurred on February 17, 2011. The peak 2011 demand was lower than the 2010 peak demand of 203.8 MW (gross) that occurred on December 28, 2010 (a decrease of -4.76 percent).

The system interruption summary for the past year and the system reliability indices for the five prior years are presented to depict the quality of service to the electrical energy consumer.

This analysis of the system reliability for MECO is for the year 2011. To determine the relative level of reliability, the statistics for five prior years, 2006 through 2010, are used for comparison.

The reliability indices are calculated using the data from all sustained system outages, except customer maintenance outages. The data used for calculating the reliability indices for 2006, 2007, 2008, 2009 and 2010 was normalized.

There were 764 outages in 2006. The data used for the 2006 reliability indices for MECO was normalized to exclude the following event:

- October 15 - Earthquake

There were 693 outages in 2007. The data used for the 2007 reliability indices for MECO was normalized to exclude the following events:

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

There were 707 outages in 2008. The data used for the 2008 reliability indices for MECO was normalized to exclude the following events:

- Storms on Maui, Molokai and Lanai
- Various equipment failures and faults

There were 880 outages in 2009. The data used for the 2009 reliability indices for MECO was normalized to exclude the following events:

- January 16 – High Winds
- June 19 – High Winds
- Various equipment failures and faults

There were 868 outages in 2010. The data used for the 2010 reliability indices for MECO was normalized to exclude the following events:

- March 28 to April 1 – High Winds
- June 7 - Flashover
- December 9 & 10 – Kona Storm
- Various equipment failures and faults

2011 MECO Normalized Results

The 2011 service reliability results were normalized to exclude the effects of various catastrophic equipment failures and large storms on Maui, Molokai and Lanai. There were 916 outages in 2011 and 72 of these outages in 2011 were classified as "abnormal" situations (i.e., catastrophic equipment failures and major storms) that cascaded into a loss of load greater than ten percent of the system peak load.

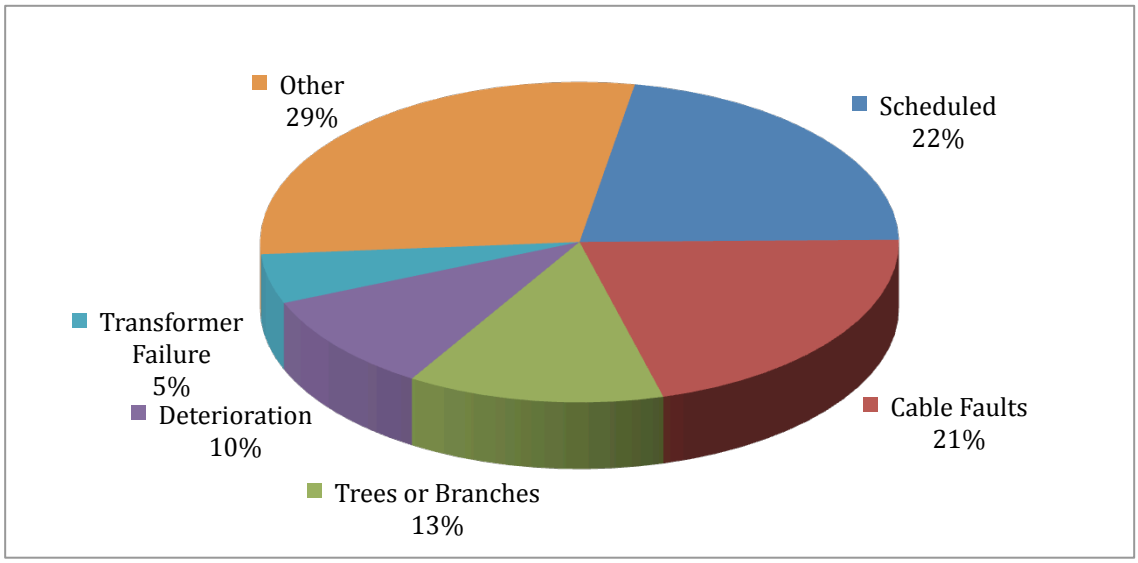
The data used for the 2011 reliability indices for MECO was normalized to exclude the following events:

- January 10 – High Winds
- January 12, 13 & 14 – High Winds and Lightning
- December 24 – High Winds
- Various equipment failures and faults

The 2011 service reliability results (normalized) indicate that MECO did not make improvements in the ASA, SAIFI, CAIDI and SAIDI indices compared to 2010.

- The 2011 ASA index of 99.9755 percent is a decrease from 2010 and is ranked the third highest ASA index of the last six years. (Higher is better.)
- The 2011 SAIFI index of 1.489 is an increase from 2010 and is ranked the third lowest SAIFI index of the last six years. (Lower is better.)
- The 2011 CAIDI index of 86.33 minutes is an increase from 2010 and is ranked the fourth lowest CAIDI index of the last six years. (Lower is better.)
- The 2011 SAIDI index of 128.55 minutes is an increase from 2010 and is ranked the third lowest SAIDI index of the last six years. (Lower is better.)

Figure 26. MECO 2011 outage causes



Scheduled outages were the leading cause of outages in 2011, with 167 outages, which accounted for 22.57 percent of all outages. This was a decrease of 1.76 percent from 2010 scheduled outages. Outages caused by cable faults were the second leading cause of outages in 2011, with 154 outages and accounted for 20.81 percent of all outages. This was an increase of 13.24 percent from 2010 cable faults.

MECO experienced 17 load shed events in 2011. Maui experienced five load shed events, Molokai experienced three load shed events and Lanai experienced nine load shed events in 2011. The MECO load shed events for 2006, 2007, 2008, 2009, 2010 and 2011 are shown in the Table 25 – "MECO Load Shed Events."

Table 25. MECO load shed events

Island System	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Maui	30	12	5	2	8	5
Molokai	5	2	12	5	8	3
Lanai	2	12	12	20	8	9
Total	**37**	**26**	**29**	**27**	**24**	**17**

MECO Annual Service Reliability Indices

The normalized results for 2011 and the normalized indices for 2006, 2007, 2008, 2009 and 2010 are shown in the table "MECO – All Islands Annual Service Reliability Indices Table" for all island systems.

Table 26. MECO service reliability indices table for all islands.

SYSTEM TOTALS	**2006** *	**2007** *	**2008** *	**2009** *	**2010** *	**2011** *
Number of Customers	64,405	65,728	66,810	67,126	67,405	68,010
Customer Hrs. Interrupted	235,186	186,022	114,001	173,602	60,006.6	145,710.8
Customer-Interruptions	249,485	170,299	75,764	108,368	67,481.0	101,268.0
ASA (Percent)	99.9583	99.9692	99.9805	99.9705	99.9898	99.9755
SAIFI (Occurrence)	3.874	2.593	1.134	1.614	1.001	1.489
CAIDI (Minutes)	56.56	62.52	90.28	96.12	53.35	86.33
SAIDI (Minutes)	219.10	162.13	102.38	155.17	53.41	128.55

*Data normalized per guidelines specified in the report on reliability that was prepared for the Public Utilities Commission, titled "Methodology for Determining Reliability Indices for HECO Utilities," dated December 1990.

Figure 27. MECO System Average Interruption Duration (SAIDI) (Lower is better)

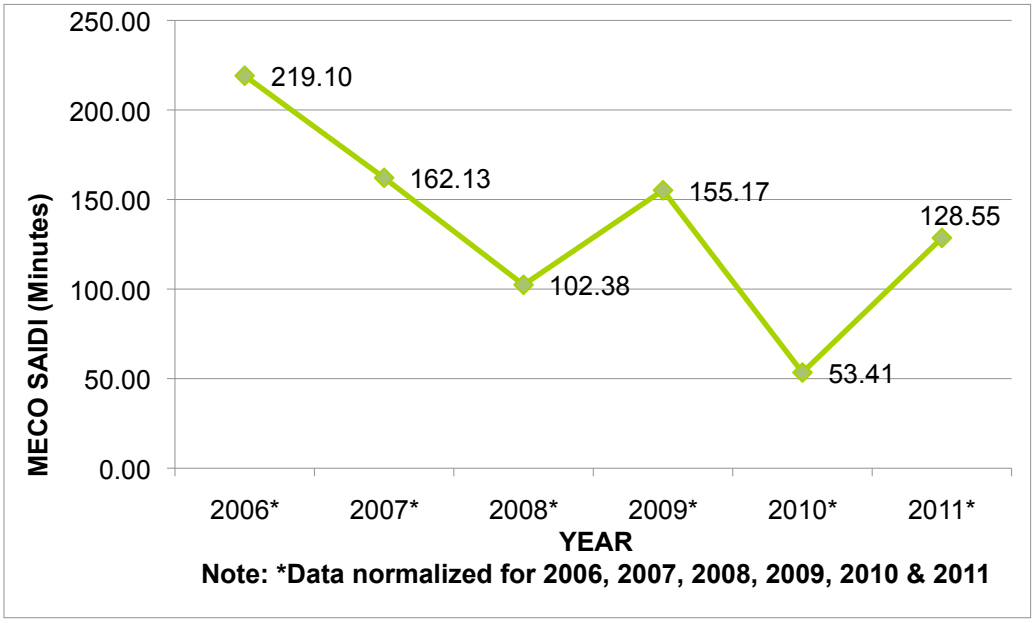


Figure 27 shows the System Average Interruption Duration Index (SAIDI) for the past six years. It shows that in 2011, the recorded SAIDI index was 128.55 and it had increased from 2010 by 140.69 percent.

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

Figure 28. MECO System Average Interruption Frequency (SAIFI) (Lower is better)

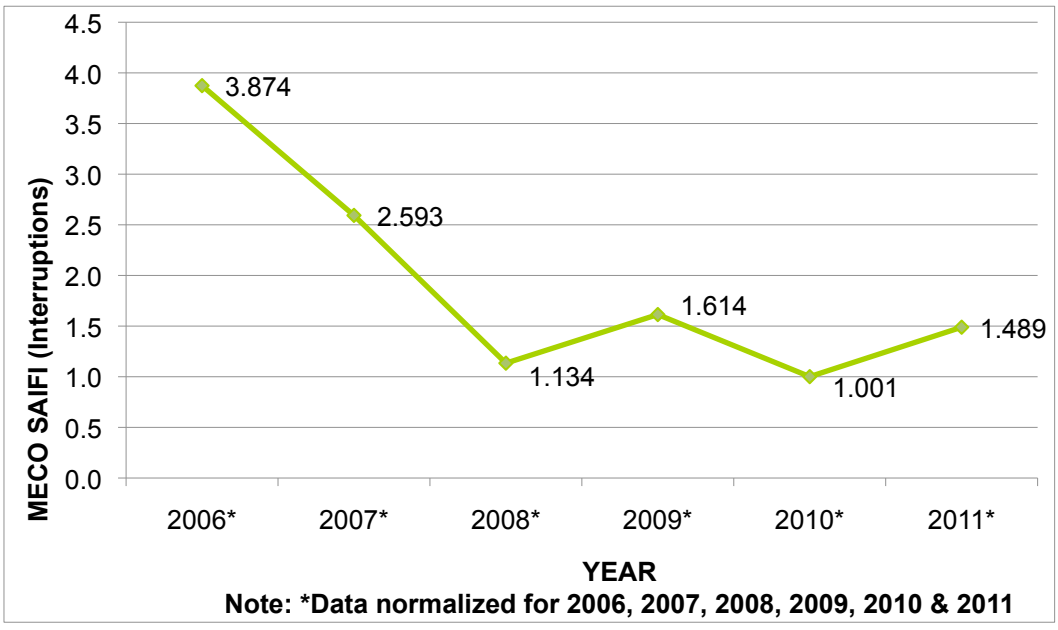


Figure 28 shows the System Average Interruption Frequency Index (SAIFI) for the past six years. It shows that in 2011, the recorded SAIFI index was 1.489 and it had increased from 2010 by 48.75 percent.

An increase in interruptions caused by trees or branches in lines, corrosion and rot and man or animals in lines or equipment contributed to a higher SAIFI for 2011. The number of interruptions due to trees or branches in lines increased in 2011, which incurred 19,955 customer interruptions, as compared to 7,867 customer interruptions in 2010. Interruptions due to trees or branches in lines accounted for 13.24 percent of the total number of interruptions in 2011. Outages due to corrosion and rot increased in 2011, which incurred 11,828 customer interruptions, as compared to 2,290 customer interruptions in 2010. Outages due to corrosion and rot accounted for 10.0 percent of the total number of interruptions in 2011. Outages due to man or animals in lines or equipment also increased in 2011, which incurred 9,033 customer interruptions, as compared to 2,298 customer interruptions in 2010. Outages due to man or animals in lines or equipment accounted for 2.16 percent of the total number of interruptions in 2011.

Figure 29. MECO Customer Average Interruption Duration (CAIDI) (Lower is better)

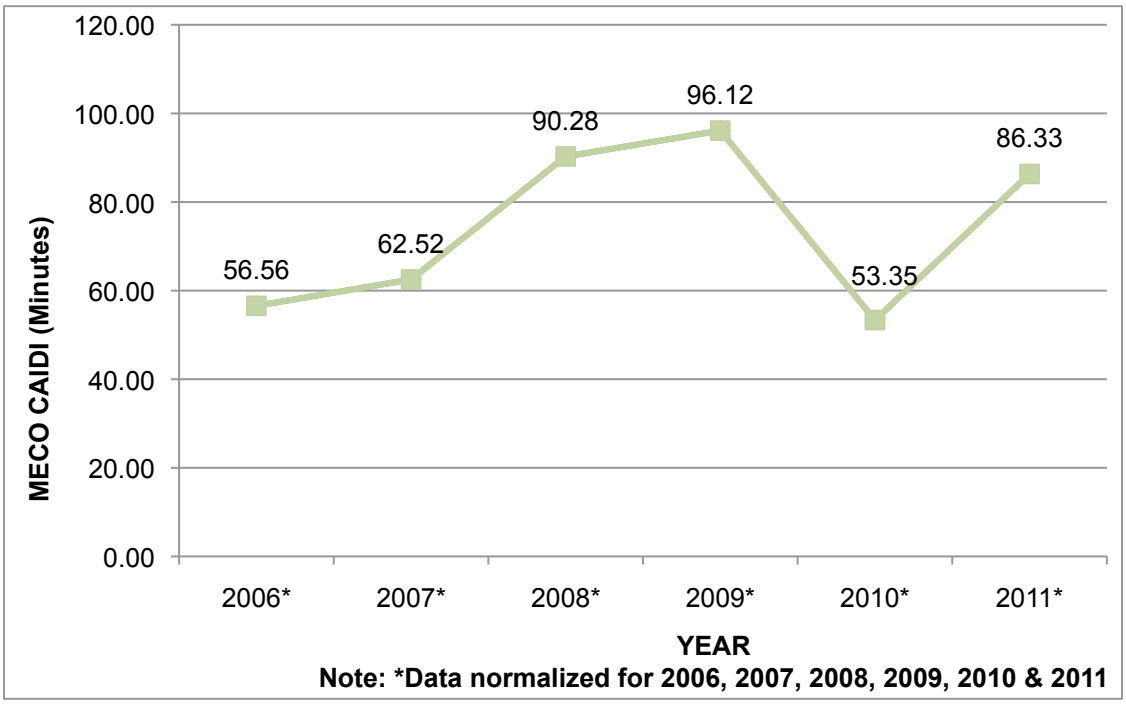


Figure 29 shows the Customer Average Interruption Duration index (CAIDI) for the past six years. The average interruption duration of 86.33 minutes per customer for 2011 is an increase of 61.82 percent from the previous year.

The contributing factors to the increase of the CAIDI index from 2010 were longer outage durations related to system additions or removals, scheduled maintenance and equipment failure. Outages due to system additions or removals increased in 2011, which incurred 3,288.5 customer interruption hours, as compared to zero customer interruption hours in 2010. Outages due to system additions or removals accounted for

2.3 percent of all customer interruption hours in 2011. Outages due to scheduled maintenance increased in 2011, which incurred 9,913.9 customer interruption hours, as compared to 1,403.0 customer interruption hours in 2010. Outages due to scheduled maintenance accounted for 6.8 percent of all customer interruption hours in 2011. Outages due to equipment failure also increased in 2011, which incurred 17,761.1 customer interruption hours, as compared to 8,112.8 customer interruption hours in 2010. Outages due to equipment failure accounted for 12.2 percent of all customer interruption hours in 2011.

Figure 30. MECO Average Service Availability (ASA) (Higher is better)

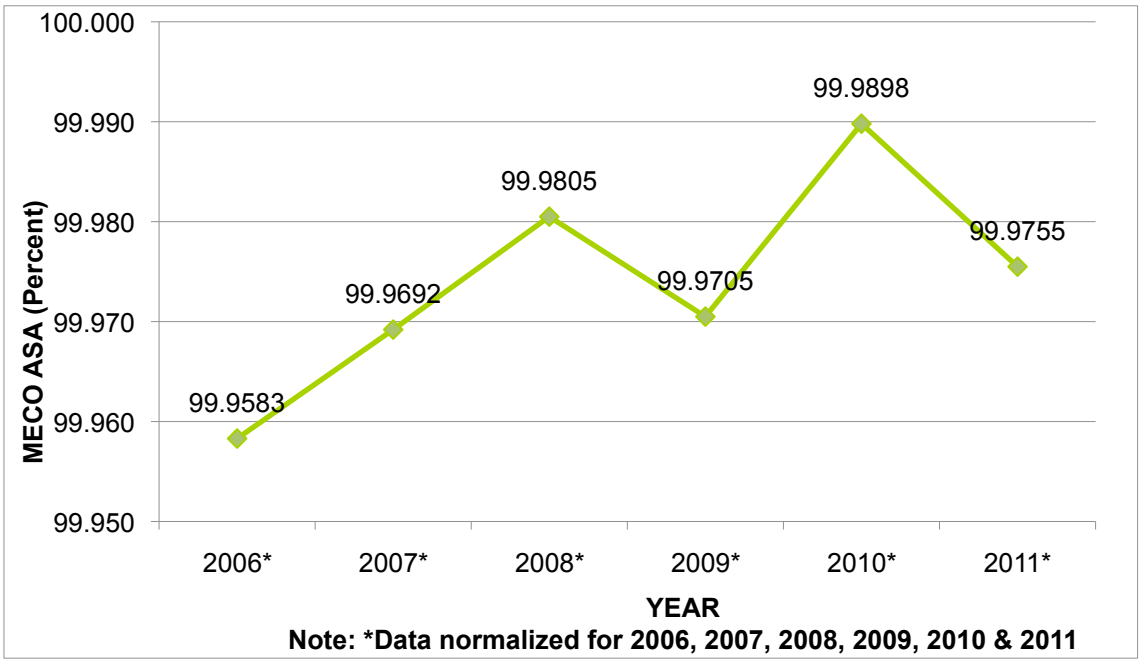


Figure 30 shows that the 2011 Average Service Availability (ASA) index has decreased from the 2010 results of 99.9898 to 99.9755 percent during 2011. This was a decrease of 0.0143 percent in the 2011 Average Service Availability compared to the previous year. The 2011 service reliability results (normalized) showed that MECO did not make improvements in the SAIFI, CAIDI or SAIDI indices compared to 2010.

The contributing factors to the decrease of the ASA index from 2010 were a greater number of customer hour interruptions related to trees or branches in lines, deterioration or rot and automobile accidents. Outages due to trees or branches in lines increased in 2011, which incurred 33,182.7 customer interruption hours, as compared to 14,385.4 customer interruption hours in 2010. Outages due to trees or branches in lines accounted for 22.8 percent of all customer interruption hours in 2011. Outages due to deterioration or rot increased in 2011, which incurred 19,229.7 customer interruption hours, as compared to 3,737.4 customer interruption hours in 2010. Outages due to deterioration or rot accounted for 13.2 percent of all customer interruption hours in 2011. Outages due to automobile accidents also increased in 2011, which incurred 13,548.5 customer interruption hours, as compared to 3,047.1

customer interruption hours in 2010. Outages due to automobile accidents accounted for 9.3 percent of all customer interruption hours in 2011.

KIUC 2011 Service Quality – Non-Normalized Results

The following KIUC electric utility service quality discussion is based on or excerpted directly from the KIUC Annual Service Reliability Report 2011 submitted to the Commission by KIUC. The report covers the 2011 calendar year. A complete copy is available for review at the Commission's office.

KIUC has not normalized any of its data for the period 2007 through 2011. The reliability indices are calculated using the data from all system interruptions.

The unnormalized reliability results for 2006 through 2011 are shown in the table "KIUC Annual Service Reliability Indices." Figures 31-34 contain the data discussed above in graphical form.

Table 27. KIUC annual service reliability indices

	2007	**2008**	**2009**	**2010**	**2011**
System Peak (MW)	77.75	74.27	75.41	76.54	72.05
Number of Customers	35,207	35,713	36,004	36,113	36,222
ASA (Per cent)	99.961	99.983	99.983	99.980	99.976
SAIFI (Occurrences)	8.43	4.45	6.17	4.76	5.80
CAIDI (Minutes)	24.35	19.84	14.63	20.74	21.53
SAIDI (Minutes)	205.15	88.18	90.28	98.72	124.97

Figure 31. KIUC Average Service Availability (ASA) (High is better)

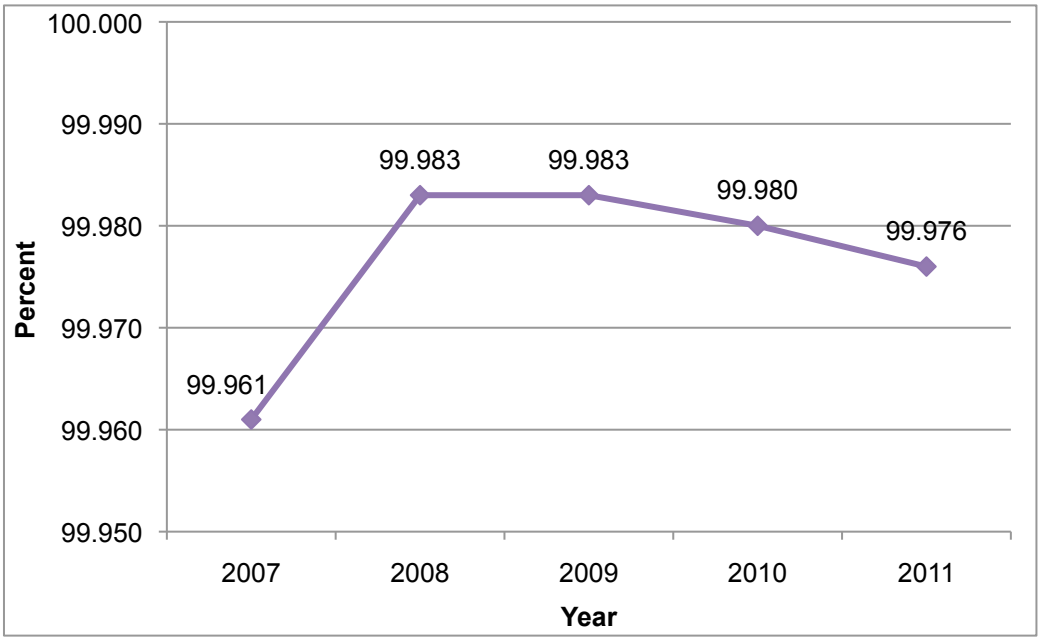


Figure 31 shows the Average System Availability (ASA) for the past five years. The 2011 ASA of 99.976 percent is slightly lower than the previous three years of the five-year period and equals the five-year average of 99.977 percent.

Figure 32. KIUC System Average Interruption Frequency Index (SAIF) (Lower is better)

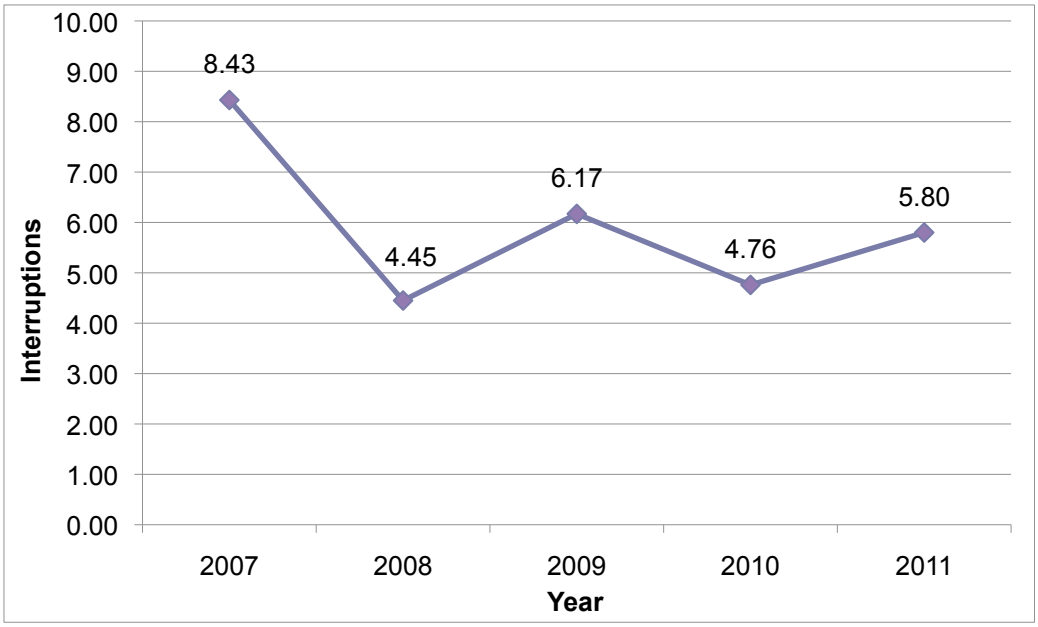


Figure 32 shows the System Average Interruption Frequency Index (SAIFI) for the past five years. The 2011 SAIFI of 5.80 was third best of the five-year period and slightly better than the five-year average of 5.92.

Figure 33. KIUC Customer Average Interruption Duration Index (CAIDI) (Lower is better)

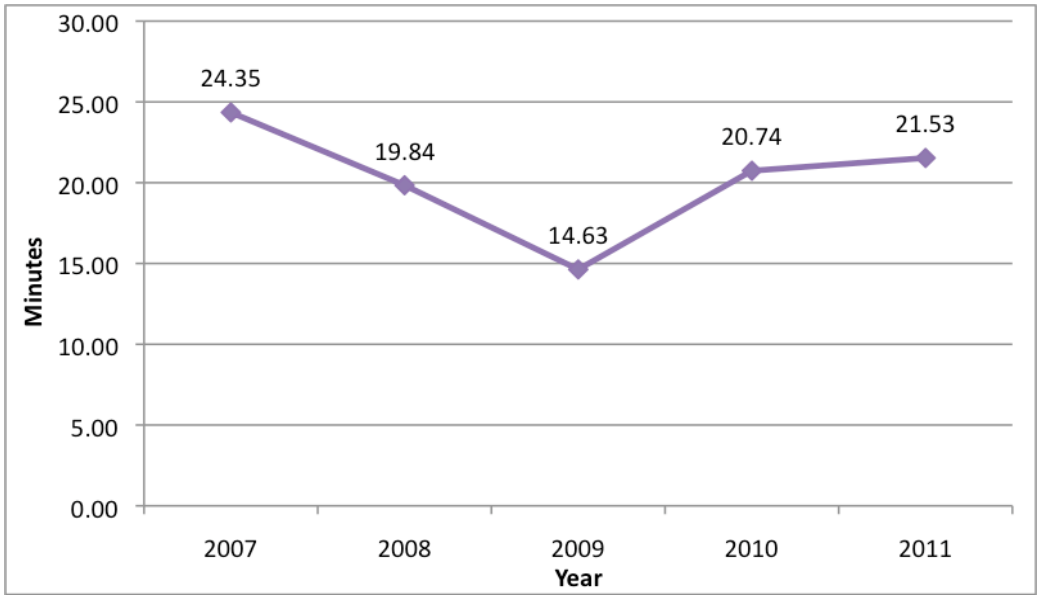


Figure 33 shows the Customer Average Interruption Duration Index (CAIDI) for the past five years. The 2011 CAIDI of 21.53 was slightly higher than the five-year average of 20.22.

Figure 34. KIUC Average Interruption Duration Index (SAIDI) (Lower is better)

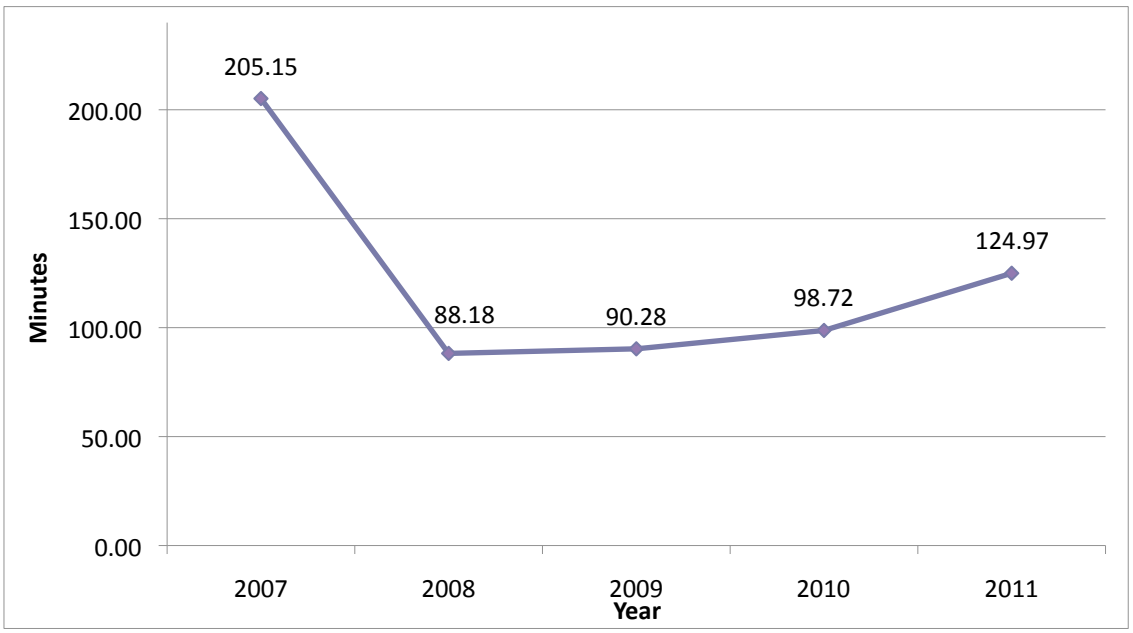


Figure 34 shows the System Average Interruption Duration Index (SAIDI) for the past five years. The 2011 SAIDI of 124.97 increased over the previous three years of the five-year and is slightly higher than the five-year average of 121.46.

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

Figure 35. KIUC 2011 sustained interruptions by frequency

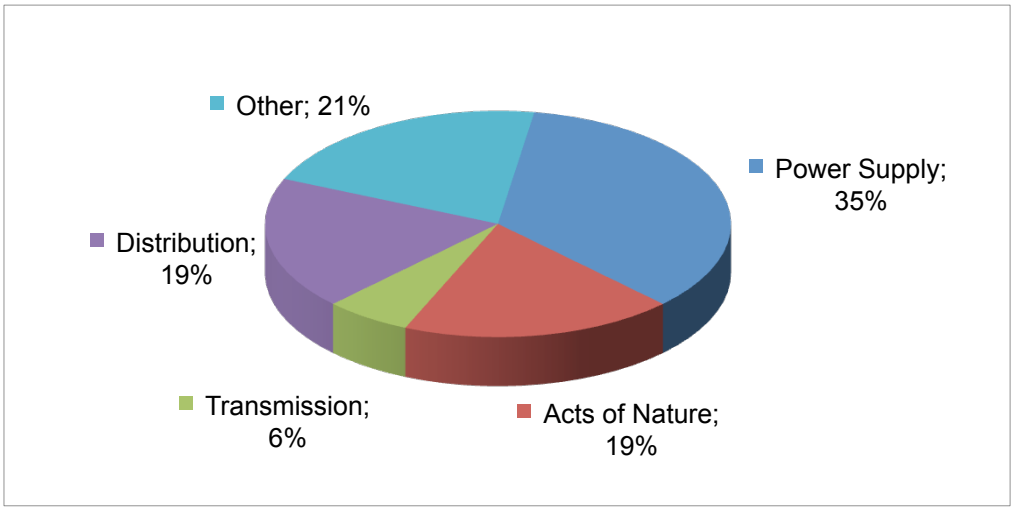


Figure 35 shows the breakdown by frequency. The leading cause of outages was "Power Supply" confined within KIUC. An example of this is generating unit problems that result in a reduction of output, causing an under frequency load shed. Causing the second most interruptions was "Other" – persons or equipment not related to or owned

by KIUC. Examples include auto accidents that contact utility poles or wires, non-KIUC contractors such as construction crews that dig into underground cables or tree trimmers that contact overhead wires, and trees that contact wires due to overgrowth. A close third was "Acts of Nature" – interruptions caused by high winds, floods, storms, etc. The fourth leading cause of interruptions was "Distribution" – failure or malfunction of distribution equipment including cables, fuses, insulators, poles, and transformers; and the fifth (or least) and final cause of interruptions was "Transmission" – failure or malfunction of transmission equipment including insulators, large transformers, lightning arrestors, and switches.

Figure 36. KIUC 2011 sustained interruptions by magnitude

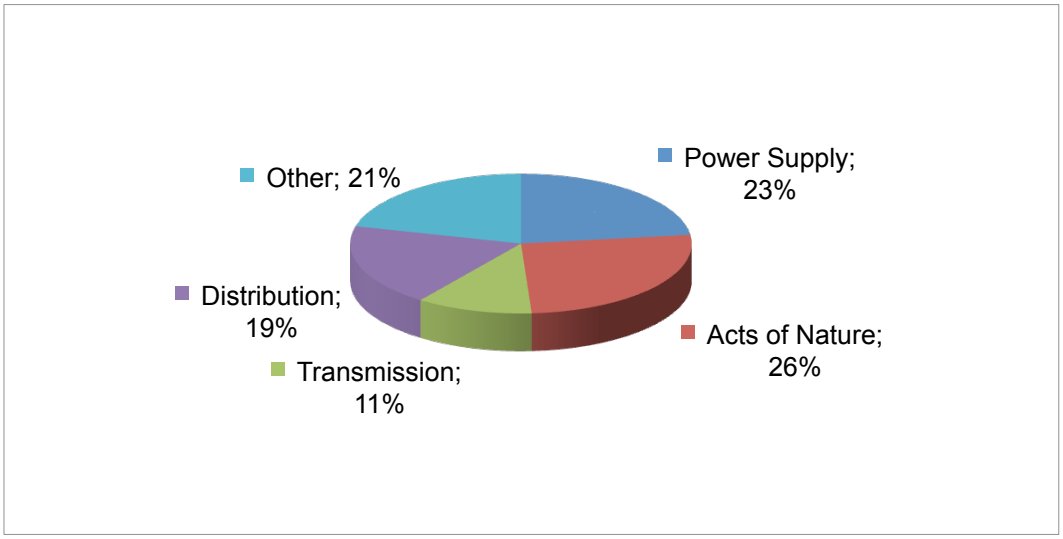


Figure 36 shows the breakdown by magnitude. The same descriptions and examples that were described following Figure 35 apply also for Figure 36. The causes of severe interruptions, in order from most to least, were "Acts of Nature," "Power Supply," "Other," "Distribution" and "Transmission."

Telecommunications Service Quality Measurements

This section has historically contained charts showing Hawaiian Telcom's Average Service Compliance Levels for the Fiscal Year. Beginning with Hawaiian Telcom's June 2011 filing, these quality measurements are being filed as confidential and can't be revealed publicly. Therefore, the Commission can no longer publish this data. The Commission continues to monitor Hawaiian Telcom's systems and activities to resolve issues and address customer concerns and complaints.

Legislation Enacted by the 2012 Legislature Affecting Public Utilities

2012 Legislative Measures Relating to the Public Utilities Commission

Governor's Message 647, Appointment of Lorraine Akiba to the Public Utilities Commission

On March 21, 2012, the Senate, with one member excused, gave unanimous consent to the governor's appointment of Lorraine Akiba to the Commission for a term ending June 30, 2018. Commissioner Akiba was appointed to replace outgoing Commissioner John Cole whose term ended June 30, 2012.

Governor's Message 648, Appointment of Michael Champley to the Public Utilities Commission

The Senate, with one member excused, unanimously consented on March 8, 2012, to the governor's appointment of Michael Champley to the Commission for a term to conclude June 30, 2016. Commissioner Champley replaces outgoing Commissioner Carlito Caliboso who ended his term in 2011.

Act 55, Relating to Electric Utilities [S.B. No. 2752, S.D. 1]

This legislation provides statutory authorization for the Commission to approve the recovery of costs incurred by electric utilities that are associated with long-term power purchase agreements. The Commission has exercised similar power under its general ratemaking authority by approving the recovery of PPA costs through the Purchased Power Adjustment Clause ("PPAC") that currently appears in electricity rates. Rating agencies that impute PPA-associated debt to the books of electric utilities have indicated that statutory language allowing for long-term PPA cost recovery can be more effective at lowering imputed debt levels, potentially to a level at or near zero percent of otherwise imputed PPA costs.

There should not be any impact to rates paid by consumers as a result of Act 55. Power purchase costs are already recovered through the PPAC, so there is no need for additional recovery mechanisms. Act 55 is meant to provide additional statutory assurance of the ability of electric utilities to recover PUC-approved power purchase costs, in addition to the regulatory assurance the Commission already provided with the PPAC via order.

Act 74, Relating to Telecommunications [H.B. No. 1868, H.D. 1]

Act 74 reduces the types of telecommunications services that would require a utility to first file an application with the Commission before charging higher rates than those filed in their existing tariffs. Previously, HRS § 269-16.85 required a utility to file with the Commission before charging a higher-than-approved rate for any retail telecommunications service. Act 74 changes the preceding requirement so that only retail telecommunications *basic exchange* services, as defined in the measure and in line with Commission rules under H.A.R. 6-81-19 (1996), require such a filing as the one noted above. Basic exchange services are defined in the bill as "those services consisting of single-line dial tone, touch-tone dialing, access to operator service, access

to enhanced 911, telecommunications relay service, telephone directory, and access to directory-assistance service via 411 dialing."

The governor noted that this bill was to be enacted without his signature, given that the potential exists for services not currently considered basic exchange services to become indispensable in the future.

Act 99, Relating to Public Utilities [H.B. No. 425, H.D. 3, S.D. 2]

Act 99 amends the Commission's general powers and duties under HRS § 269-6 by requiring the Commission to consider "the costs and benefits of a diverse fossil fuel portfolio and of maximizing the efficiency of all electric utility assets to lower and stabilize the cost of electricity." The Act also expressly states that the new language above will not upset or remove the Renewable Portfolio Standards obligations of utilities under HRS § 269-92. The Commission now has a directive from the Legislature to consider the best mix of fossil fuel resources for Hawaii, including comparatively inexpensive fuels like liquefied natural gas. There is no reporting or justification requirement under Act 99, so the impact on Commission resources is limited. However, the policy guidance this measure provides the Commission in determining the impact to ratepayers from electric utility actions or inactions may be significant nearer to the culmination of Hawaii's RPS requirements in 2030.

Act 106, Relating to the State Budget [H.B. No. 2012, H.D. 1, S.D. 1, C.D. 1]

Act 106, the supplemental appropriations budget legislation for 2012, amends the State's near-term operating budget originally set out in the Regular Session of 2011 [Act 164, SLH 2011], as well as any changes to capital improvement project spending for the 2012-2013 fiscal biennium. The Commission's appropriation for FY 2012-2013 was reduced from $11,386,174 to $11,269,551, and this was consistent with similar adjustments for nearly all state agencies for this appropriations cycle.

Act 165, Relating to Interisland Electric Transmission Cable Systems [S.B. No. 2785, S.D. 2, H.D. 2]

This measure sets out the regulatory framework under which an interisland electric transmission cable system or systems can be developed and operated per the Commission's oversight. Only a cable company that has been certified by the PUC – i.e., received a certificate of public convenience and necessity or CPCN – will be regulated by the Commission, and the Act sets out procedures to guide that certification process. In addition, provisions for associated tariffs, electric utility company cost recovery, and certain tax exemptions are part of this Act.

The Commission is responsible under this Act for certifying and subsequently regulating certified cable companies operating within the State as public utilities as defined under HRS §269-1. It is unlikely that new rules will need to be adopted for the regulation of any certified cable company.

The Commission is currently reviewing a draft request for proposals under Commission Docket No. 2011-0225 for 200MW of intermittent renewable energy to serve the island of Oahu, which includes the option for the development of an interisland electric transmission cable to move the electricity between islands.

Act 166, Relating to Electricity [S.B. No. 2787, S.D. 2, H.D. 1, C.D. 1]

Act 166 authorizes the Commission to develop, adopt, and enforce electric reliability standards and interconnection requirements that will be used to oversee the whole of the Hawaii electric system. In addition, this measure authorizes the contracting of a third-party entity to assist the Commission monitor compliance with and enforce standards and requirements as the Hawaii Electricity Reliability Administrator ("HERA"). A surcharge is authorized to provide for the funding of HERA operations. Notably, the Commission is given direct authority over independent power producers and others with respect to interconnections and system reliability. These types of independent entities have traditionally been only indirectly influenced by the Commission via power purchase agreements entered into with electric utilities.

This Act requires the Commission to develop and implement the finer points of the envisioned electric reliability and interconnection oversight program, which means the establishment of reliability rules and processes, the contracting of HERA, the creation of the HERA-funding surcharge, the creation of rules for the enforcement and issuance of penalties, and more. The Commission is currently undertaking the development of reliability and interconnection oversight programs authorized under Act 166 in conjunction with other electricity reliability-related proceedings like the Reliability Standards Working Group and the collective Integrated Resource Plan for Hawaiian Electric Company, Inc., Maui Electric Company, Ltd., and Hawaii Electric Light Company, Inc.

Act 196, Relating to the One Call Center [H.B. No. 1879, H.D. 2, S.D. 1, C.D. 1]

This Act extends the exemption for pest control operators within the State in having to comply with Hawaii's One Call Center law, HRS Chapter 271-E. The exemption is now extended through June 30, 2015. Act 196 also alters the exemption so that excavation done under contract with county and state agencies is no longer exempted from One Call Center compliance. Exempt operators are required to attend approved training on excavation requirements and best practices. The Commission must undertake an investigation of the risks to residences from pest control operations and report to the Legislature its findings and recommendations prior to the 2014 session. Commission Docket No. 2012-0043 opened March 9, 2012, and is targeted for completion prior to the start of the Regular Session of 2013.

Act 232, Relating to the Public Utilities Commission [H.B. No. 2644, H.D. 2, S.D. 1, C.D. 1]

Act 232 creates a new section within HRS Chapter 269 that authorizes the Commission to provide "preferential water carrier service rates by tariff for ratepayers that engage in agricultural activities." Ratepayers currently have the ability to receive the Island Agricultural Product Discount on Young Brothers services, which can reduce shipping costs for customers engaged in agricultural activities by as much as 35 percent of the shipper's standard tariff.

House Concurrent Resolution No. 58, H.D. 1, S.D. 1

This concurrent resolution requests the Commission to direct electric utilities to examine a number of specific strategies and resource options during each utility's IRP, as well as requesting the Commission to perform additional review of some of its own internal processes. Two IRP strategies are identified for consideration: (1) the replacement of existing fossil fuel power plants with renewable energy resources, and (2) the development of firm or intermittent electricity to be transmitted between islands by an undersea electric cable or other means. H.C.R. No. 58 also identifies a few specific IRP resource options to be examined, including (1) energy from geothermal resources, (2) hydrogen and other types of energy storage, and (3) waste-to-energy resources. This resolution is a general request for IRP examinations, so the various parties involved in the ongoing consolidated IRP for the Hawaiian Electric Companies have been apprised of the resolution and it is being considered during that proceeding under Commission Docket No. 2012-0036.

Finally, this measure requests the Commission to examine internal practices and issues, including (1) the PUC's avoided cost calculation methodology, (2) methods for maximizing distributed generation, (3) the increased use of energy efficiency generation programs and technology to meet the State's energy efficiency portfolio standards, (4) methods to minimize curtailment of renewable energy resources, and (5) ways to modernize Hawaii's grids. The Commission will need to perform these examinations and report its progress in its 2013 and 2014 Annual Reports for the Legislature.

Other 2012 Legislative Measures Relating to Utilities

Act 18, Relating to Condominiums [H.B. No. 1746, H.D. 1]

Act 18 extends the state law requiring the installation of individual utility (electricity, gas, water, etc.) meters for condominium units to all condominium buildings in the State, and not just to those projects having commenced construction during 1978 or later. The amended law also allows for the use of a system of separate unit calculations for utility usage in lieu of installing separate utility meters. Installation costs must be paid for by each condominium association choosing to install individual meters. In short, all condominium projects – even those built prior to 1978 – must now either install individual utility meters or provide for the calculation of utility usage of individual units in a manner that is "fair and equitable."

Act 70, Relating to Procurement [S.B. No. 2872, H.D. 1]

Act 70 allows any utility owners whose facility occupies a state highway right-of-way to provide their share of costs up front to the affected state agency for the encumbrance of funds in related contracts by employing the use of an agreement to pay.

Act 188, Relating to Taxation [H.B. No. 2740, H.D. 1, S.D. 1, C.D. 1]

Act 188 extends for an additional three years to December 31, 2015, the sunset date for the current favorable state fuel tax rate for naphtha fuel used for power generating facilities. Naphtha-fuel-using power facilities on the islands of Kauai and

Hawaii benefit from the lower tax rate. If the current favorable rate provisions are allowed to sunset, the tax rate will rise from 2 cents per gallon of naphtha to the standard 17 cents per gallon on most other fuels.

Act 203, Relating to Transportation [H.B. No. 2004, H.D. 2, S.D. 2, C.D. 1]

Act 203 changes the mental capacity requirements for the violation of the unlawful operation of motor carriers under HRS §§ 271-27(a) and (b) from "knowingly and willfully" to "intentionally, knowingly, or recklessly." This Act was passed in response to complaints that an increasing number of motor carrier passengers were being taken advantage of by unscrupulous motor carrier operations or those posing as legitimate motor carrier operations. Thus, this legislation lowers the mental capacity requirements for the misdemeanor of the unlawful operation of motor carriers.

Act 242, Relating to Information Technology [S.B. No. 2236, H.D. 2, C.D. 1]

Part I of Act 242 expands and amends the statutory provisions under HRS Chapter 39A that authorize the issuance of special purpose revenue bonds ("SPRBs") for electrical energy and gas projects to also include authorization for the issuance of SPRBs for telecommunications carriers. Part II of this Act specifically authorizes the issuance of $100,000,000 in SPRBs to support Clearcom, Inc., or a partnership headed by Clearcom, Inc., in the planning and development of broadband infrastructure throughout the State.

Act 259, Relating to Reporting Requirements for Telecommunications and Cable Television Providers [H.B. No. 2526, H.D. 2, S.D. 2]

This Act requires communications service providers, including telecommunications providers, to report to the Department of Commerce and Consumer Affairs certain information that includes the availability of broadband access across different market segments and broadband pricing. Confidentiality provisions concerning reported information supplied by providers are also included in Act 259.

Act 298, Relating to Motor Carriers [S.B. No. 824, S.D. 2, H.D. 2, C.D. 1]

Act 298 prohibits existing and future motor carrier service contract provisions that would require a motor carrier to indemnify, defend or hold harmless an indemnitee party to a contract for any liability arising from the negligence or intentional acts or omissions of that indemnitee party.

Federal Issues and Activities

EPA's Mercury Air Toxics Standards ("MATS")

On December 21, 2011, the U.S. Environmental Protection Agency ("EPA") announced standards to limit mercury, acid gases and other toxic pollution from power plants, aimed at reducing air pollution from coal and oil-fired power plants. They set technology-based emissions limitation standards for mercury and other toxic air pollutants, reflecting levels achieved by sources currently in operation. The passing of the rule affects coal- and oil-fired electric generating units with a capacity of 25 MW or greater. Existing sources will have up to four years to comply with MATS. For more information please go to the EPA's website on the subject: http://www.epa.gov/airquality/powerplanttoxics/index.html.

Greenhouse Gas Prevention of Significant Deterioration and Tailoring Rule

This EPA rule is part of their phase-in approach to permitting sources of greenhouse gas ("GHG") emissions. On December 23, 2010, the EPA issued a series of rules that put the necessary regulatory framework in place to ensure that industrial facilities can get clean air act permits covering their GHG emissions when needed if necessary. The EPA tailoring rule ensures that only the largest sources of GHGs, those responsible for 70 percent of the GHG pollution from stationary sources, would require air permits. This rulemaking process is not yet complete. For more information, please go to the EPA's website on the subject: http://www.epa.gov/NSR/actions.html.

National Ambient Air Quality Standards ("NAAQS")

On August 31, 2011, the EPA issued a ruling, effective October 31, 2011, on its carbon monoxide standards, retaining the standards that were already in place and setting a compliance date of January 1, 2017 (for the size of the utilities in Hawaii). The primary standard for carbon monoxide is nine parts per million in an average eight hour period and thirty-five parts per million in a one hour period (both are not to be exceeded more than once per year. For more information about all of the NAAQS, please go to the EPA's website: http://www.epa.gov/air/criteria.html. For more information on the carbon monoxide ruling, please see the Federal Register Volume 76, Number 169: http://www.gpo.gov/fdsys/pkg/FR-2011-08-31/html/2011-21359.htm.

National Emission Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines ("RICE-NESHAP")

Though these proposed rule changes issued by the EPA do not become effective until the EPA issues a final regulation, the proposed amendments to the NESHAP for reciprocating internal combustion engines including replacing emission limits with (1) management practices for some engines that are remote from human activity or

(2) equipment standards for existing engines that are not in remote areas. The proposed amendments also specify hazardous air pollutant emission standards for specific size engines among other changes. Upon the issuance of a final regulation, these standards would affect neighbor island generation. For more information about these standards, please go to the EPA's website: http://www.epa.gov/ttn/atw/rice/ricepg.html.

Federal Universal Service Fund ("USF") Eligible Telecommunications Carriers – Annual Recertification

The Federal Universal Service Fund program, created by the U.S. Congress through the Telecommunications Act of 1934, as amended in 1996 ("Telecommunications Act"), is designed: 1) to promote the availability of quality telecommunications services at just, reasonable, and affordable rates; 2) to increase access to advanced telecommunications services throughout the nation; 3) to advance the availability of such services to all consumers, including those in low income, rural, insular, and high cost areas; and 4) at rates reasonably comparable to those charged in urban areas. The Telecommunications Act also requires that all providers of telecommunications services should contribute to Federal universal service in some equitable and nondiscriminatory manner; that there be specific, predictable, and sufficient federal and state mechanisms to preserve and advance universal service; that all schools, classrooms, healthcare providers, and libraries should, generally, have access to advanced telecommunications services; and finally, that the Federal-State Joint Board and the Federal Communications Commission ("FCC") should determine those additional principles that, consistent with the Telecommunications Act, are necessary to protect the public interest.

As provided by the Act, the USF receives contributions from providers of telecommunications services to support four programs: 1) Lifeline/Link-up; 2) High-Cost; 3) Schools and Libraries; and 4) Rural Health Care. Those contributions are then pooled and redistributed to carriers designated as Eligible Telecommunications Carriers, in order to assist them in recovering costs of providing telecommunications services in areas where otherwise it would not be financially feasible. Only ETCs can receive support under the USF program. The Hawaii PUC is the designating authority for ETCs in Hawaii.

As of June 30, 2012, the Hawaii PUC has granted ETC status to six carriers: Hawaiian Telcom, Inc., Sandwich Isles Communications, Inc., Sprint Nextel ("Sprint"), Coral Wireless, LLC, dba Mobi PCS ("Mobi"), T-Mobile West Corporation ("T-Mobile"), and Pa Makani LLC dba Sandwich Isles Wireless ("SIW"). Sprint, Mobi, T-Mobile, and SIW are considered competitive eligible telecommunications providers. On April 10, 2012, the Commission designated Pa Makani LLC dba Sandwich Isles Wireless as an eligible telecommunications carrier in the state of Hawaii, Docket No. 2010-0119. Sprint filed an application with the Commission to relinquish its ETC designation in Hawaii, effective as of December 31, 2011 (Docket No. 2011-0133). In a Decision and Order filed August 31, 2012, the Commission approved Sprint's application.

Table 28. ETCs in Hawaii

ETC	Carrier Type	Date Designated	Docket No.	Notes
Hawaiian Telcom, Inc.	Incumbent	12/04/1997	1997-0363	
Sandwich Isles Communications, Inc.	Incumbent	12/09/1998	1998-0317	
Sprint Nextel	Wireless	06/25/2004	2003-0104	Relinquished ETC status 12/31/2012
Coral Wireless, LLC, d/b/a Mobi PCS	Wireless	02/23/2007	2005-0300	
T-Mobile West LLC	Wireless	03/14/2011	2010-0119	
Pa Makani LLC dba Sandwich Isles Wireless	Wireless	04/10/2012	2011-0145	

In addition to designating ETCs, the Hawaii PUC must annually certify to the FCC that all ETCs that receive high-cost USF support are using those funds for their intended purposes. Along with FCC requirements, the Hawaii Public Utilities Commission has established annual certification requirements applicable to Hawaii ETCs in Decision and Order No. 22228, in Docket No. 05-0243 issued on January 17, 2006, subsequently updated on February 27, 2012 in (interim) Decision and Order No. 30230 in Docket No. 2011-0052.

On November 18, 2011, the FCC released a comprehensive order to comprehensively reform universal service. The FCC's order adds broadband as a supported service, changes funding eligibility and distribution, and adopts a number of specific performances and reporting obligations. Current support is generally phased down, and new support will be gradually introduced. The FCC's stated goals of reform are to preserve and advance the availability of fixed and mobile voice and broadband services, and to minimize the USF contribution burden on the public.

Preview Fiscal Year 2012-13

The Commission will continue to balance its multi-faceted workload in the coming fiscal year. The high costs of energy and the progressive energy policy of the state provide the motivation the Commission needs to pay close attention to the changing energy landscape of Hawaii. In addition to the dockets currently in progress, on the immediate horizon is the development and adoption of electric reliability standards, as previously mentioned in the legislative section, Act 166, SLH 2012.

The Commission is also paying close attention to the developments of the liquefied natural gas ("LNG") proposals for Hawaii. LNG has the potential to serve many roles in the Hawaii market but has significant infrastructure requirements before it can be utilized. The Gas Company LLC dba Hawaii Gas has recently filed an application with the Federal Energy Regulatory Commission ("FERC") to request authority to import LNG to Hawaii. The Commission has filed a Notice of Intervention to the FERC Docket No. CP12-498.

Additionally, the Commission is also planning on reviewing some of the current renewable energy acquisition programs in the state and is working on a study to assess the energy efficiency potential of the state, which will assist in many aspects of planning and will help to meet the requirements of the EEPS framework. With respect to existing generation, the Commission is also watching the developments of environmental compliance at both the federal and state levels.

To keep abreast of these and all Commission activities, please visit the PUC website: http://puc.hawaii.gov.