2001 ANNUAL REPORT

SPECIAL PURPOSE REVENUE BONDS
AUTHORIZED UNDER

ACT 262
SESSION LAWS OF HAWAII 1998

AND

ACT 257
SESSION LAWS OF HAWAII 1999

PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII

JUNE 2002
Background

The acts above authorize the issue of special purpose revenue bonds (SPRBs) by the State Department of Budget and Finance (B&F), to assist utilities serving the general public with the financing of multi-purpose capital improvement programs for the local furnishing of electric energy and gas.

The Public Utilities Commission (Commission) is required to approve the projects funded with the bond proceeds, and to report annually on the progress in reducing the financing costs of electric and gas utilities through the use of SPRBs. The reports must include: the cost of the bonds at the time of issue in comparison to the cost of financing through conventional loans; the estimated benefits derived from the use of SPRBs; and a listing of capital improvement projects to be funded by SPRBs.

Accordingly, this report presents a summary of bond financing under the acts. It covers acts with authorization periods in effect or with funds in trustee accounts during the 2001 calendar year.

Bond Authorization and Issuance

The following table displays the authorization period for bond financing, the qualifying electric and gas utilities, and the total principal amounts in SPRBs authorized and issued under each act, as of December 31, 2001.

The total issued amounts are also presented in the last column as percentages of the authorized amounts.
### SPRBs Authorized and Issued as of 12/31/01

($ thousands)

<table>
<thead>
<tr>
<th>Act/SLH (Authorization Period)</th>
<th>Electric Utility*</th>
<th>Total Authorized</th>
<th>Total Issued</th>
<th>%**</th>
</tr>
</thead>
<tbody>
<tr>
<td>262/1998 (7/20/98 - 12/31/03)</td>
<td>HECO $ 75,000</td>
<td>$ 35,000</td>
<td>47%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>HELCO 25,000</td>
<td>-0-</td>
<td>-0-</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$ 100,000</td>
<td>$ 35,000</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>257/1999 (7/1/99 - 12/31/02)</td>
<td>TGC $ 19,600</td>
<td>$ 19,600</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

* HECO (Hawaiian Electric Company), HELCO (Hawaii Electric Light Company), MECO (Maui Electric Company), KE (Kauai Electric Division of Citizens Communications Company), and TGC (The Gas Company, division of Citizens Communications Company).

** The total issued amount as a percentage of the total authorized amount.

The status of bond financing under the acts is reported in the attached Exhibit A. Among other things, the exhibit lists each bond series under the acts and the principal amounts issued in one or more series for each utility.

As shown in Exhibit A, there were no additional bond issues under the acts in 2001.

### Benefits and Savings

SPRB loans offer electric and gas utility companies a lower interest rate alternative to other forms of debt on borrowings needed to provide essential public power facilities. Because the interest earned by SPRB purchasers is exempt from federal and state income taxes, the bonds can bear a lower interest rate than taxable debt with equivalent characteristics (maturity dates, call provisions etc.). In addition, revenue bonds generally have lower underwriting fees. These savings ultimately benefit electric and gas utility customers by reducing capital finance costs assessed in rates set by the Commission.

Exhibit A also presents the interest rates of SPRBs in comparison with the interest rates of equivalent taxable debt (first mortgage bonds or unsecured notes), the estimated savings in interest expense on annual and 30-year bases, and the status of the construction funds held in trustee accounts.
As indicated in the exhibit, the estimated savings in interest expense under each act is as follows:

Estimated Savings in Interest Expense as of 12/31/01
($ Thousands)

<table>
<thead>
<tr>
<th>Act/SLH</th>
<th>Annual</th>
<th>30-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>262/1998</td>
<td>$ 577.5</td>
<td>$ 17,325.0</td>
</tr>
<tr>
<td>257/1999</td>
<td>$ 915.3</td>
<td>$ 18,764.1</td>
</tr>
</tbody>
</table>

(Variances in figures between annual and 30-year interest savings are due to rounding. For Act 257/1999, interest expense savings is on 20.5-year basis.)

The overall savings under each act may reflect a number of variables associated with bond financing, such as taxes, issuance costs, trustee fees, deferred taxes, and the refunding (redemption) of bonds before maturity.

Capital Improvement Projects

Lists of capital improvement projects to be funded by bond proceeds under each act are exhibited in previous SPRB annual reports as shown below:

<table>
<thead>
<tr>
<th>Act/SLH</th>
<th>SPRB Annual Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>262/1998</td>
<td>1999</td>
</tr>
<tr>
<td>257/1999</td>
<td>1999</td>
</tr>
</tbody>
</table>

To track the use of bond proceeds, the Commission requires the electric utilities to file quarterly and annual reports on the projects funded and the amounts used. These records are maintained at the Commission.