



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

December 22, 2004

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

Dear Mr. President and Members of the Senate:

For your information and consideration, I am transmitting herewith two (2) copies of the 2003 Annual Report - Special Purpose Revenue Bonds Authorized Under Act 262, Session Laws of Hawaii 1998.

Pursuant to Section 93-16, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at www.hawaii.gov/budget/LegReports/Reports.htm.

With warmest personal regards,

Aloha,

/s/

LINDA LINGLE

Enclosures



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

December 22, 2004

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

Dear Mr. Speaker and Members of the House:

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Pursuant to Section 93-16, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at www.hawaii.gov/budget/LegReports/Reports.htm.

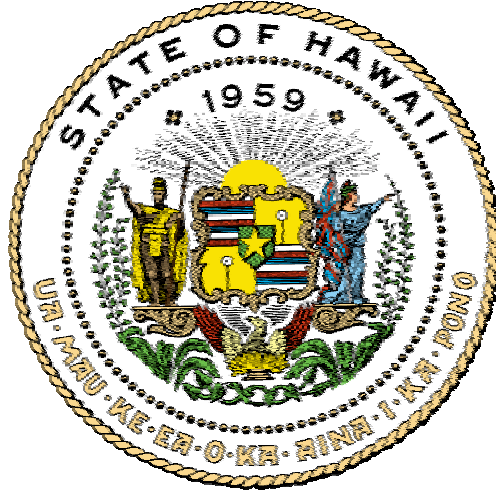
With warmest personal regards,

Aloha,

/s/

LINDA LINGLE

Enclosures



PUBLIC UTILITIES COMMISSION
STATE OF HAWAII

2003 ANNUAL REPORT

SPECIAL PURPOSE REVENUE BONDS
AUTHORIZED UNDER
ACT 262
SESSION LAWS OF HAWAII 1998

DECEMBER 2004

2003 Annual Report
on
Special Purpose Revenue Bonds
Authorized under Act 262/Session Laws of Hawaii 1998 (“Act 262 1998”)

BACKGROUND

Section 2 of Act 262 1998 authorizes the issuance of special purpose revenue bonds (“SPRBs”) by the State of Hawaii 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, subject to certain limitations.

Pursuant to Section 2 of Act 262 1998, the approval of the Public Utilities Commission (“Commission”) is required for projects funded with the bond proceeds.

Pursuant to Section 3 of Act 262 1998, the Commission is required to report annually on the progress in reducing the financing costs of electric utilities through the use of SPRBs. The report must also include: (1) the cost of the bonds at the time of issue in comparison to the cost of financing through conventional loans; (2) the estimated benefits derived from the use of SPRBs; and (3) a listing of capital improvement projects to be funded by SPRBs.

Accordingly, this report presents a summary of bond financing under the aforesaid act. It covers acts with authorization periods in effect or with funds in trustee accounts during the 2003 calendar year.

PROGRESS IN REDUCING FINANCING COSTS WITH SPRBs

The following table displays the authorization period for bond financing, the qualifying electric utilities, and the total principal amounts in SPRBs authorized and issued under Act 262 1998, as of December 31, 2003.

The total issued amounts are also presented in the last column as percentages of the authorized amounts.

SPRBs Authorized and Issued as of 12/31/03
(\$ thousands)

<u>Act</u> <u>(Authorization Period)</u>	<u>Utility*</u>	<u>Total</u> <u>Authorized</u>	<u>Total</u> <u>Issued</u>	<u>%**</u>
Act 262 1998*** (7/20/98 - 12/31/03)	HECO	\$ 75,000	\$ 75,000	100%
	HELCO	25,000	-0-	-0-
	Total	\$ 100,000	\$ 75,000	75%

* HECO ("Hawaiian Electric Company, Inc.") and HELCO ("Hawaii Electric Light Company, Inc.").

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

*** Authorization to issue SPRBs under Act 262 1998 lapsed on December 31, 2003.

The status of bond financing under Act 262 1998 is reported in the attached Exhibit A. Among other things, Exhibit A lists each bond series under Act 262 1998 and the principal amounts issued in one or more series for the utility.

Act 262 1998 authorized the issuance of \$25 million in SPRBs on behalf of HELCO for multi-project capital improvement program, including the acquisition of land, facilities used to produce electricity (including two (2) new fossil fuel generating units on the island of Hawaii), transmission and distribution facilities, and other electric systems and facilities, or any combination thereof. Pursuant to Act 262 1998, the authorization to issue SPRBs lapsed on December 31, 2003. In 2003, the Commission did not receive filings relating to any bonds issued on behalf of HELCO under Act 262 1998.

COMPARISON OF COSTS AND SAVINGS

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 shown in greater detail in Exhibit A, the estimated savings in interest expense under Act 262 1998 is as follows:

Estimated Savings in Interest Expense as of 12/31/03
(\$ Thousands)

<u>Act</u>	<u>Annual</u>	<u>30-Year</u>
Act 262 1998	\$ 1,077.5	\$ 32,325.0

(Variances in figures between annual and 30-year interest savings are due to rounding.)

The overall savings under Act 262 1998 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.

BENEFITS OF USING SPRBs

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 energy 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. As a result of the interest savings, the utility's capital finance costs are lower than they otherwise would be. These savings ultimately benefit electric and gas utility customers in the form of lower electric and gas rates set by the Commission.

LISTING OF CAPITAL IMPROVEMENT PROJECTS

Lists of capital improvement projects to be funded by bond proceeds under Act 262 1998 were exhibited in the 1999 and 2002 SPRB Annual Reports.

In 1999, the Commission approved HECO projects to be funded, in part, from the proceeds of the sale of up to \$75 million of SPRBs authorized by Act 262 1998. The total cost of these projects exceeds the authorized bond amounts authorized by Act 262 1998 to allow for changes in the timing or scope of individual projects. In 2002, the Commission approved HECO's supplemental projects and participation in the sale of up to \$40 million of SPRBs authorized by Act 262 1998. The cost of these supplemental projects, totaling approximately \$150 million, are to be funded, in part, with the proceeds of the sale of SPRBs issued under Act 262 1998.

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.

EXHIBIT A

2003 SPECIAL PURPOSE REVENUE BOND REPORT
 STATUS OF BOND FINANCING UNDER
 ACT 262/SLH 1998
 HAWAIIAN ELECTRIC CO.
 (\$ Thousands)

Act	Utility	SPRB Series	Date		Principal Amount Issued	Special Purpose Revenue Bonds		Equivalent Taxable Debt (First Mortgage Bonds or Unsecured Notes)		Savings in interest Expense		Status as of 12/31/03		
			Issued	Due		Interest Rate	Annual Interest Expense	Annual Interest Expense	Annual 30-Yr. Life	Funds Drawn in 2003	Cumulative Funds Drawn (figures include interest earned)	Balance Held by Trustee		
	HECO	1999C	11/17/1999	11/1/2029	\$35,000	6.200%	\$2,170.0	7.850% (1)	\$2,747.5	\$577.5	\$17,325.0	\$10,891.9	\$37,525.9	\$0.0
		2002A	9/24/2002	9/1/2032	40,000	5.100%	2,040.0	6.350% (2)	2,540.0	500.0	15,000.0	2,335.7	25,974.7	14,025.9
					<u>\$75,000</u>					<u>\$1,077.5</u>	<u>\$32,325.0</u>	<u>\$13,227.6</u>	<u>\$63,500.6</u>	<u>\$14,025.9</u>

262:

- (1) Estimated by Merrill Lynch & Co.
- (2) Estimated by Goldman, Sachs & Co.

NOTES: For all issues, variances in figures between annual and life interest savings are due to rounding.

Source: HECO annual special purpose revenue bond reports
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