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NEWS RELEASE

For Immediate Release: August 31, 2010

PUBLIC UTILITIES COMMISSION ISSUES FINAL DECISION APPROVING A DECOUPLING MECHANISM FOR THE HAWAIIAN ELECTRIC COMPANIES TO ENCOURAGE THEIR SUPPORT FOR RENEWABLE ENERGY AND ENERGY EFFICIENCY INITIATIVES

HONOLULU – To encourage the Hawaiian Electric Companies (Hawaiian Electric Company, Hawaii Electric Light Company, and Maui Electric Light Company) to accelerate the adoption of clean energy resources, including renewable energy generation and energy efficiency programs, the Hawai'i Public Utilities Commission (Commission) today approved a decoupling mechanism that is designed to de-link the Hawaiian Electric Companies' revenues and profits from their electricity sales.

On February 19, 2010, the Commission approved a decoupling mechanism subject to the issuance of a Final Decision and Order in Docket No. 2008-0274. The Commission, in a 2-1 decision, issued its Final Decision and Order today.

Decoupling represents a transformational change from traditional rate-making. Under the traditional approach, utilities like the Hawaiian Electric Companies recover their fixed costs partially through fixed charges, such as customer charges, and partially through volumetric charges such as energy (or per kilowatt-hour (kWh)) charges. This rate design works for utilities when sales gradually increase from year to year, such that increases in revenues are sufficient to recover the fixed costs approved by regulators in the utility's last rate case, while also compensating the utility for cost escalation due to needed expansion or modernization of system infrastructure and inflation, all while maintaining an adequate return on the utility's investments to attract investors. The more a utility recovers its fixed costs from volumetric charges, the more a change in sales will affect earnings. Periods of consistent sales volume increases could lead to elevated earnings. Thus, utilities may have an incentive to increase sales, which could then lead to over-earnings.

In the event that sales become stagnant or are on a long-term decreasing trend, and the corresponding falling revenues fail to fully recover fixed costs, utilities traditionally initiate a rate case to request an increase in revenues. However, since rate proceedings may take many months to adjudicate, it may be difficult for utilities to maintain their financial health. Under these conditions, it is not unusual for utilities to file rate cases in quick succession in an effort to reset their rates to compensate for falling sales and increasing costs.

For the Hawaiian Electric Companies, the conservation, energy efficiency, and customer-sited renewable generation measures that are advanced in Hawai‘i's recent energy policies and laws will contribute to falling sales. Thus, while these measures move the State toward important energy goals that all stakeholders and the Commission support, the erosion of electricity sales and revenues may result in negative financial impacts to the Hawaiian Electric Companies. Decoupling, which de-links or "decouples" the Hawaiian Electric Companies' revenues from the amount of electricity or kWh they sell, is intended to remove the disincentive for the Hawaiian Electric Companies to aggressively pursue Hawai‘i's clean energy objectives.

The decoupling mechanism approved by the Commission includes: (1) a sales decoupling component, or Revenue Balancing Account, which is intended to break the link between the Hawaiian Electric Companies' sales and their total electric revenue; and (2) a Revenue Adjustment Mechanism, which is intended to compensate the Hawaiian Electric Companies for increases in utility costs and infrastructure investment between rate cases.

Chairman Carlito P. Caliboso said that "decoupling is a superior way to regulate electric utilities during these critical times, and it is the best regulatory model to move Hawai‘i toward a clean energy future, while also protecting the financial health of the Hawaiian

Electric Companies. A financially unhealthy utility costs consumers more. So, we need to see that the financial health of electric utilities is maintained so that they can continue to provide reliable service to consumers at a reasonable cost. With decoupling, the Hawaiian Electric Companies should have no economic or financial dis-incentive to support renewable energy and energy efficiency initiatives."

The final order and entire docket record may be accessed through the Commission's electronic Document Management System at the following website address: http://dms.puc.hawaii.gov/dms/.

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