On March 31, 2011, HAWAIIAN ELECTRIC COMPANY submitted its first annual Revenue Decoupling Mechanism filing to the HAWAII PUBLIC UTILITIES COMMISSION (PUC). The Revenue Decoupling Mechanism is part of the implementation of a new regulatory model designed to encourage energy conservation and increase integration of renewable energy resources onto the utility's grid by separating utility revenues from electricity usage. The Revenue Decoupling Mechanism filing encompasses a Revenue Balancing Account provision and a Rate Adjustment Mechanism provision.

Under decoupling, the PUC approves in a formal rate case a revenue level needed to recover the investments and expenses the Company requires to provide electrical service to its customers. As electricity usage levels vary between formal rate cases, electricity rates are then increased or decreased through a Revenue Balancing Account, allowing the utility to still recover the costs for providing those services, but not earn additional profit from higher sales. Rates also increase or decrease between formal rate cases through a Rate Adjustment Mechanism to allow the utility to partially recover cost increases largely related to inflation and PUC-approved capital additions.

The Rate Adjustment Mechanism calculation was determined pursuant to the joint decoupling proposal submitted by the Hawaiian Electric Companies1 and the State Division of Consumer Advocacy and approved by the PUC on August 31, 2010. As authorized by the PUC, annual revenues to recover the estimated cost of providing electric service will be determined by taking the base revenues in the Company's 2009 test year rate case and adjusting such revenues to a level sufficient to recover: (1) bargaining unit employee wage increases reduced by assumed productivity improvements, (2) non-labor cost changes determined by applying the change in the Gross Domestic Product Price Index to the non-labor costs approved in the Company's 2009 test year rate case, and (3) the return on and return of capital investments placed into service by the end of 2010 and new capital investments placed into service by the end of September 2011.

An Earnings Sharing Mechanism, which is designed to protect customers from excessive charges, will be implemented along with the Rate Adjustment Mechanism. If the utility's 2011 actual rate of return on equity (ROE) exceeds the ROE found to be fair and reasonable in the Company's last rate case, rates will be reduced to share the excess with customers. However, if the utility's actual ROE is less than that amount, the utility will not be permitted to use the earnings sharing mechanism to increase revenues to make up the difference.

If the Revenue Decoupling Mechanism determines that the annual utility base revenues should be decreased, the difference will be returned to customers in the form of credits on their bills. If it is determined revenues should be increased, the difference is proposed to be recovered through a per-kilowatt-hour rate adjustment over the 12 months from June 1, 2011 to May 31, 2012.

According to the Revenue Decoupling Mechanism calculations provided in the March 31, 2011 filing, Hawaiian Electric Company's base revenues would be adjusted by $12.7 million or 0.9% to help recover the utility's cost of providing electric service. This amount consists of $0 million to recover the balance in the 2010 Revenue Balancing Account, $12.7 million for the 2011 Rate Adjustment Mechanism, offset by $0 of earnings sharing credits. If approved by the PUC, this will result in a rate adjustment of 0.1694 cents per kilowatthour for each customer class and is reflected in the Revenue Balancing Account Provision tariff.

The impact of the rate adjustment, if approved, will vary by customer type and actual electricity usage. A typical residential monthly bill for a household using 600 kWh would increase by $1.02.

For more information regarding the Revenue Decoupling Mechanism, please visit www.heco.com or contact:

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