BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of	)	
	)	
MAUI ELECTRIC COMPANY, LIMITED	)	Docket No. 2006-0387
	)	
For Approval of Rate Increases and Revised Rate Schedule and Rules	)	
	)	

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MECO
2007 TEST YEAR

DIRECT TESTIMONIES AND EXHIBITS

Book 3 of 5

February 23, 2007

MECO T-8
DOCKET NO. 2006-0387

TESTIMONY OF
SHARON M. SUZUKI

MANAGER
CUSTOMER SERVICE DEPARTMENT
MAUI ELECTRIC COMPANY, LIMITED

Subject: Customer Service Expense
Integrated Resource Planning Expense
Demand-Side Management Program Expense

INTRODUCTION

Q. Please state your name and business address.

A. My name is Sharon M. Suzuki and my business address is 220 West Kamehameha Avenue, Kahului, Hawaii.

Q. By whom are you employed and in what capacity?

A. I am employed by Maui Electric Company, Limited ("MECO" or "Company") as the Manager of the Customer Service Department.

Q. Please summarize your educational background and professional experience that relates to your testimony in this proceeding.

A. My educational background and experience are listed in MECO-700.

Q. Have you provided other testimony in this proceeding?

A. Yes, I submitted testimony identified as MECO T-7 and its supporting exhibits and workpapers that discussed customer accounts expense, other operating revenues, customer deposits, interest on customer deposits, revenue collection lag days, and customer service department workforce.

Q. What are your areas of responsibility in this testimony?

A. My testimony will cover the Company's 2007 test year estimates for the following subject areas:

1) Customer service expense for the Company's Maui, Lanai, and Molokai Divisions;

2) Integrated Resource Planning ("IRP") expense; and

3) Demand-Side Management ("DSM") program expense.

CUSTOMER SERVICE EXPENSE

Q. What is the Company's 2007 test year estimate of customer service expense?

A. The 2007 test year estimate of customer service expense is as follows:

	Test Year 2007
Maui Division	$1,538,000
Lanai Division	$1,000
Molokai Division	$2,000
MECO Consolidated	$1,541,000

See MECO-801.

Q. What is customer service expense?

A. Customer service expense are those costs for activities incurred by the Company primarily related to responding to customer requests and inquiries, and providing educational information on, among other things, energy conservation, renewable energy, and electrical safety.

Q. What blocks of accounts are utilized to record customer service expense?

A. The following four (4) blocks of accounts are used to record customer service expenses:

1) Account no. 909 - supervision – customer service expense,
2) Account no. 910 - customer assistance expense,
3) Account no. 911 - informational advertising expense, and
4) Account no. 912 - miscellaneous customer service expense.

It should be noted, however, that Account no. 912 - miscellaneous customer service expense, has not been used by the Company historically to record expenses. Thus, the Company has not included any test year estimate for this account for purpose of this rate case proceeding.

Q. What primary activities are included in customer service expense?

A. Primary activities in customer service expense include responding to customer requests and inquiries, and distributing information to customers on energy rates,

load management, energy efficiency, efficient electro-technologies, the Company's utility activities, energy conservation, renewable energy resources, electrical safety and other related topics. Customer service expense also includes activities where the Company works with business and community organizations and educational institutions to jointly promote energy efficiency and conservation to the public, and IRP.

Q. What types of expenses are included in customer service expense?

A. The types of expenses included in customer service expense are:

1) Labor and non-labor costs for the Company's Administration Department and the Administration, Commercial Services and IRP Divisions of the Customer Service Department to provide information and assistance toward encouraging safe, efficient, and economical use of the Company's electric services; and

2) Labor and non-labor costs for IRP that were previously incremental costs recovered through the IRP Cost Recovery Provision ("IRP Clause") that are now proposed to be recovered through base rates.

Q. How much of the 2007 test year estimate of customer service expense is attributable by island to account nos. 909 (Supervision), 910 (Customer Assistance), 911 (Informational Advertising) and 912 (Miscellaneous)?

A. Of the Maui Division's $1,538,000 test year customer service expense amount, account no. 909 (Supervision) comprises $66,000 of this amount, account no. 910 (Customer Assistance) comprises $1,438,000 of this amount, and account no. 911 (Informational Advertising) comprises the remaining $34,000 of this amount. See MECO-802.

For the Lanai Division, the entire $1,000 test year amount is attributable to

account no. 910 (Customer Assistance). See MECO-805.

For Molokai, the entire $2,000 test year amount is also attributable to account no. 910 (Customer Assistance). See MECO-808.

The above amounts by island are separately described below in my testimony. As noted above, because account no. 912 (Miscellaneous) has not been used by the Company historically to record expenses, no test year estimate has been included for this account for purpose of this rate case proceeding

Q. How was the 2007 test year customer service expense estimate developed?

A. The $1,541,000 test year estimate of customer service expense was based on the 2007 operating budget, as adjusted for (1) budget adjustments made for known or expected changes in the test year, and (2) normalization adjustments ("normalizations"). In particular, to derive the Company's total 2007 test year estimate, budget adjustments and normalizations were made to the operating budget for the Maui Division, as reflected in columns B and C of MECO-802. No budget adjustments or normalizations were made for the Lanai and Molokai Divisions, as noted in columns B and C of MECO-805 and MECO-808, respectively. Mr. Lyle Matsunaga describes the Company's budgeting process in more detail in MECO T-9.

Q. Please describe the budget adjustment that was made to the Maui Division's 2007 operating budget for customer service expense in determining the 2007 test year estimate.

A. As noted in line 2, column B of MECO-802 and line 8, column B of MECO-803, a downward budget adjustment of ($2,400,000) was made to the Maui Division's customer service expense, account no. 910 (Customer Assistance) non-labor expense, to account for the estimated 2007 amortization of deferred incremental

DSM costs that will be recovered through the DSM Surcharge component ("DSM Surcharge") of the IRP Clause.

Q. Please describe the test year normalization that was made to the Maui Division's 2007 operating budget in determining the 2007 test year estimate.

A. A normalization in the amount of $796,000 was made to the 2007 operating budget to account for incremental IRP costs that are proposed to be recovered as operation and maintenance ("O&M") expenses through base electric rates rather than through the IRP Clause, as explained in greater detail below in my testimony relating to account no. 910 (Customer Assistance) and IRP. See MECO-802 (line 2, column C). $100,000 of the increase was made for labor expenses. $696,000 of the increase was for non-labor expenses. See MECO-803.

Q. How does the Company's consolidated 2007 test year estimate for customer service expense compare with the Company's recorded consolidated expense in 2005?

A. The consolidated 2007 test year estimate of $1,541,000, excluding DSM amortization expenses, but including the aforementioned IRP normalization, is approximately $1,030,000, or 201.6%, more than the 2005 recorded consolidated customer service expense of approximately $511,000 excluding IRP/DSM amortization expenses. See MECO-WP-801 (page 3, line 21, columns N and O).

Q. What are the reasons for the increase?

A. The increases are primarily due to the following:

1) The normalization of $796,000 (comprised of $100,000 labor and $696,000 non-labor) made to the operating budget for IRP expenses that were previously recovered through the IRP Clause, as explained in

greater detail below relating to account no. 910 (Customer Service) and IRP;

2) Increased labor costs of approximately $145,000 attributable to the following:

   a. Increased allocation of the Customer Service Manager's time to oversee the administration and implementation of IRP and customer relations activities ($21,000), as discussed below related to account no. 909 (Supervision);

   b. The filling of a Supervisor position for the Commercial Services Division of the Customer Service Department, and the full staffing of Commercial Account Managers in 2007 ($100,000), as discussed below related to account no. 910; and

   c. The higher allocation of expenses from the Communications Specialist, Security Specialist and Community Educator in the Administration Department ($24,000), as discussed below related to account nos. 910 and 911 (Informational Advertising).

3) Increased non-labor expenses of $90,000 for the following:

   a. Administration expenses of $26,000 for residential surveys and administrative support;

   b. Training and travel expenses of $24,000 for Manager and staff, as discussed below related to account nos. 909 and 910;

   c. Technical support from Hawaiian Electric Company ("HECO") of $15,000 to assist with providing information concerning various types of potential electrotechnology projects;

d. Informational advertising expenses of $14,000 for the Maui Division, and energy-related publication expenses of $2,000 for Molokai Division's community service programs; and

e. Expenses of $9,000 for customer events like the Energy Expo.

Q. Are there other items in the customer service expense test year amounts that have variances from 2005 recorded amounts of greater than $45,000 and 10%?

A. Yes. MECO-WP-801, among other things, lists 2005 recorded expenses by NARUC code blocks and compares those amounts with the Company's 2007 operating budget and test year estimates. Explanations are provided therein for items having variances between the 2007 operating budget and 2005 recorded amounts of greater than $45,000 and 10%. See in particular MECO-WP-801 (pages 4 through 9).

Q. How do the 2007 test year customer service expenses compare to recorded expenses in previous years from 2001 through 2005?

A. Excluding IRP/DSM amortization expenses, the 2007 test year customer service expenses are higher by approximately $927,000, or 151.0%, when compared to the average 2001-2005 recorded expenses. See MECO-WP-801 (page 3, line 21, columns L and M).

Q. What are the reasons for the approximately 151.0% increase?

A. The increase is primarily due to the same reasons for the variances between the 2007 operating budget and the 2005 recorded consolidated expenses discussed above.

MAUI DIVISION

CUSTOMER SERVICE EXPENSE

Q. What is MECO's 2007 test year estimate for customer service expense for the Maui Division?

A. The 2007 test year estimate for customer service expense for the Maui Division is $1,538,000. See MECO-802 (line 4, column D). As mentioned above, account no. 909 (Supervision) comprises $66,000 of this amount, account no. 910 (Customer Assistance) comprises $1,438,000 of this amount, and account no. 911 (Informational Advertising) comprises the remaining $34,000 of this amount. See MECO-802 (column D, lines 1 through 3, respectively).

Q. Of this 2007 test year estimate, how much is attributable to labor vs. non-labor expenses?

A. Of the 2007 test year estimate for the Maui Division of $1,538,000, $537,000 consists of labor expenses and the remaining $1,001,000 consists of non-labor expenses. See MECO-803 (column D, lines 5 and 10, respectively).

Q. How does the Maui Division's 2007 test year customer service expense compare with historical recorded information?

A. The Maui Division's 2007 test year estimate of $1,538,000 for customer service expense, excluding IRP/DSM amortization expenses, is approximately $1,028,000, or 201.5%, more than the 2005 recorded consolidated customer service expense of approximately $510,000 excluding IRP/DSM amortization expenses. See MECO-804 (page 2, line 12, columns E and I) and MECO-WP-804 (page 3, line 12, columns N and O). Further, the Maui Division's 2007 test year estimate for customer service expense, excluding IRP/DSM amortization expenses, is higher by approximately $925,000, or 150.7%, when compared to the

average 2001-2005 recorded expenses. See MECO-WP-804 (page 3, line 12, columns L and M).

Maui Division

Account no. 909 - Supervision

Q. What is the Maui Division's 2007 test year estimate for account no. 909 - supervision?

A. The Maui Division's 2007 test year estimate for account no. 909 - supervision is $66,000. See MECO-802 (line 1, column D). This amount includes $59,000 for labor, and $7,000 for non-labor, expenses. See MECO-803 (column D, lines 2 and 7, respectively).

Q. What expenses are included in the Maui Division's account no. 909 - supervision?

A. This account includes labor and non-labor expenses for the Customer Service Department Manager to provide general direction and supervision of the customer service activities, which includes, among other things, the promotion of the safe, efficient and economical use of the Company's services. The Customer Service Department Manager charges her labor expenses primarily to applicable customer accounts based on customer service activities actually performed. The $7,000 non-labor estimate for this account as shown on MECO-803 (line 7, column D) is for business meetings and training, including travel costs incurred by the Customer Service Department Manager to develop business plans and maintain customer relationships.

Q. How was the 2007 test year expense estimate for the Maui Division's account no. 909 – supervision determined?

A. The 2007 test year expense estimate for the Maui Division's account no. 909 – supervision is based on the 2007 operating budget, which in turn was developed

through a review of historical data coupled with the Company's knowledge of activities to be performed for ongoing operations and for additional workload. See MECO-WP-802 (page 1) for detail of the activities that the Customer Service Manager is forecasted to perform during the 2007 test year. See MECO-WP-803 (page 1, line 5, column A) for the non-labor expenses that are expected to be incurred. No adjustments or normalizations were made to the 2007 operation budget amounts for this account no. 909 – supervision.

Comparison With 2005

Q. How does the 2007 test year expense for the Maui Division's account no. 909 – supervision compare with the recorded 2005 expense?

A. The 2007 test year estimate for the Maui Division's account no. 909 - supervision is approximately $27,000, or 69.4%, higher than the recorded 2005 expense. See MECO-804 (page 2, line 3, columns E and I) and MECO-WP-804 (page 3, line 3, columns N and O).

Q. What are the primary reasons for the higher 2007 test year estimate as compared to the 2005 expense?

A. The higher amount is due to increased labor and non-labor expenses, with labor accounting for approximately $21,000 of this higher amount and non-labor accounting for the remaining difference. The higher labor expenses are due to the increased allocation of the Customer Service Manager's time expected to be spent on overseeing the administration and implementation of IRP and customer relations activities. The higher non-labor expenses are due to increased training and travel expenses for the Customer Service Manager on topics such as leadership and customer service management. See MECO-WP-801 (page 4, lines 7 and 21, column C).

Maui Division

Account 910 - Customer Assistance

Q. What is the Maui Division's 2007 test year estimate for account no. 910 - customer assistance?

A. The Maui Division's 2007 test year estimate for account no. 910 - customer assistance is $1,438,000, as shown in MECO-802 (line 2, column D). This amount includes $474,000 for labor and $964,000 for non-labor expenses. See MECO-803 (column D, lines 3 and 8, respectively).

Q. What expenses are included in the Maui Division's account no. 910 – customer assistance?

A. This account includes the labor and non-labor expenses in providing instructions or assistance to residential and commercial customers to promote the safe, efficient and economical use of electricity.

Labor Expense

Q. What expenses are included in the Maui Division's account no. 910 - customer assistance labor expense of $474,000 for the 2007 test year?

A. The 2007 test year labor expense for account no. 910 - customer assistance of $474,000 includes portions of the labor expenses of the following twelve (12) positions: approximately 45% of one (1) position for Supervisor of Commercial Services, approximately 83% of each of three (3) positions for Commercial Account Managers, approximately 63% of one (1) position for an IRP Supervisor, and approximately 91% of one (1) position for an IRP Specialist in the Customer Service Department; approximately 0.4% of one (1) position for a Safety Aide, approximately 8% of one (1) position for a Security Specialist, approximately 4% of one (1) position for a Safety Administrator, approximately 5% of one (1)

position for a Safety Director, approximately 11% of one (1) position for a Communications Specialist, and approximately 85% of one (1) position for a Community Educator in the Administration Department. Manning hours are detailed in MECO-WP-802 (pages 2 to 11).

Q. How was the 2007 test year labor expense estimate for the Maui Division's account no. 910 – customer assistance determined?

A. The 2007 test year labor expense estimate is based on the 2007 operating budget, which in turn was determined based on a review of historical data coupled with the Company's knowledge of activities to be performed for ongoing operations and for additional workload. In doing so, non-productive labor on-cost was added to direct labor costs to arrive at the $374,000 labor expense in the 2007 operating budget. See MECO-803 (line 3, column A). Mr. Lyle Matsunaga discusses the Company's on-cost in more detail in MECO T-9. From this amount, the Company then added a $100,000 normalization adjustment to account for an IRP Specialist position that was previously recovered through the IRP Clause. See MECO-803 (line 3, column C).

Q. Has the number of staff charged to account no. 910 - customer assistance changed since 2005? Please explain.

A. Yes. The number of staff charging to account no. 910 - customer assistance has increased by one (1) since 2005. The Supervisor of Commercial Services position was created and filled in 2006 to oversee the Commercial Services Division of the Customer Service Department. This position oversees the Commercial Account Managers and the commercial DSM program activities.

Q. How will the Supervisor of Commercial Services assist in improving service to customers?

A. The Supervisor of Commercial Services will enable the Company to have a supervising staff to manage the daily operations of the Company's Commercial Services Division of the Customer Service Department.

Q. What type of customer assistance is provided by the Company's Commercial Services Division?

A. The Commercial Services Division provides assistance and services to commercial customers, including an "in-person call" program where a Commercial Account Manager contacts the commercial customer on a monthly basis to develop and maintain multilevel relationships with large customer organizations. Services by this Division also include providing these commercial customers with their 24-month energy usage, consultation with these commercial customers to discuss detailed usage and demand data, high bill investigation, rate analysis and demand-side management. Commercial customers are also provided with information on ways to more efficiently use energy supplied by the Company, power quality and efficient electro-technologies. These commercial customers also receive advice on power factor improvement methods, demand-limiting, load shifting, and alternate rate schedules and riders that would enable these customers to better manage their energy costs.

In conjunction with these responsibilities, the Company's Commercial Services Division personnel continue to encourage our large power (Schedule P) customers, such as hotels, hospitals, supermarkets, public and private water companies, and large retail stores, to defer a portion of their air conditioning, water pumping and refrigeration loads away from the evening peak to the extent possible. The Company's Commercial Services Division personnel also continue to inform customers of load management rates, rate riders, including Rider M,

Rider T, and Schedule U, and other energy efficiency measures. These rate riders and Schedule U allow for customers to receive special rates if they have qualifying loads such as: (1) off-peak and curtailable loads for Rider M, (2) time-of-day loads for Rider T, and (3) cogeneration for Schedule U.

Q. What other activities do the Commercial Services Division personnel perform in the area of customer assistance?

A. Other important activities of the Commercial Services Division include providing critical communications with commercial customers during power outages, gathering information on significant new construction projects for load forecasting, encouraging use of commercial heat pumps, ozonation technology and other efficient electro-technologies and energy efficient equipment, assisting commercial customers in preparing electric energy budgets, and providing information on green energy issues and renewable energy technologies. Periodic seminars, surveys and focus group meetings are also organized and presented to these customers.

<u>Non-labor Expense</u>

Q. What expenses are included in the Maui Division's account no. 910 - customer assistance non-labor expense of $964,000 for the 2007 test year?

A. The 2007 test year customer assistance non-labor expense estimate of $964,000 for the Maui Division includes the cost of vehicle operation and maintenance, HECO's services and external consulting services for technical support, clerical supplies, inter-island travel, and computer services. It also includes costs for educational services such as classroom and educational materials, films, videos, brochures, residential surveys, clerical supplies, local travel, educational services and corporate communications support, and other related miscellaneous goods and

services. Lastly, it includes administrative-support costs for HECO's services and external consultant services, clerical supplies, inter-island travel, and HECO's computer services to support the Company's IRP activities. See MECO-WP-803 (page 2, line 42, column A).

Q. How was the 2007 test year non-labor expense estimate of $964,000 for the Maui Division's account no. 910 – customer assistance determined?

A. The 2007 test year non-labor expense estimate for the Maui Division's account no. 910 – customer assistance started with the 2007 operating budget, which is based on a review of historical data coupled with the Company's knowledge of activities to be performed for ongoing operations and for additional workload. This resulted in an amount of $2,668,000 as shown on MECO-804 (page 2, line 5, column F). From this amount, the Company then: (1) made a downward budget adjustment of ($2,400,000) to account for the estimated 2007 amortization of deferred incremental DSM costs that will be recovered through the DSM Surcharge as further discussed below, and (2) added a $696,000 normalization adjustment to reflect the Company's change in its IRP incremental cost recovery method from recovery through the IRP Clause to recovery through base rates, as also further discussed in my testimony below. See MECO-804 (page 2, line 5, columns G and H, respectively).

<u>Comparison with Recorded 2005 and Prior Years</u>

Q. How does the 2007 test year expense for account no. 910 - customer assistance of $1,438,000 compare with recorded 2005 expenses?

A. Overall, excluding IRP/DSM amortization expenses, the 2007 test year customer assistance expense estimate of $1,438,000 for account no. 910 – customer assistance is approximately $983,000, or 215.9%, higher than the 2005 recorded

expense of approximately $455,000. See MECO-804 (page 2, line 6, columns E and I) and MECO-WP-804 (page 3, line 6, columns N and O).

Q. What are the primary reasons for the higher 2007 test year estimate as compared to the 2005 expense?

A. This is primarily attributed to an approximately $218,000 increase in labor expense and an approximately $764,000 increase in non-labor expenses. See MECO-WP-804 (page 3, column N, lines 4 and 5, respectively).

Q. What accounts for the $218,000 increase in labor expense for the 2007 test year over the 2005 recorded expense?

A. The $218,000 increase is primarily attributed to the additions of the Supervisor of Commercial Services and the IRP Specialist positions, and the full staffing of the Commercial Account Manager positions discussed above in my testimony.

Q. What accounts for the $764,000 increase in non-labor expense for the 2007 test year over recorded 2005 expenses?

A. A major portion ($696,000, or 91.1%) of the $764,000 increase is for the normalization adjustment of IRP non-labor expenses mentioned above and more fully discussed later in my testimony under IRP Expense below. The remainder is attributed to the increased expenses for training and travel by the Commercial Services staff, technical support from HECO for potential electrotechnology projects, and participation in the Energy Expo discussed above in my testimony.

Q. How do the 2007 test year labor and non-labor expense estimates for account no. 910 – customer assistance compare with recorded expenses in other periods?

A. A comparison of labor and non-labor expenses for account no. 910 – customer assistance, based on amounts shown on MECO-804 (page 2), which exclude IRP/DSM amortization expenses, are as follows:

2001 (recorded):	$545,000
2002 (recorded):	$596,000
2003 (recorded):	$542,000
2004 (recorded):	$498,000
2005 (recorded)	$455,000
2007 (test year estimate):	$1,438,000

The test year 2007 estimate is approximately $911,000, or 172.8%, higher than the 2001-2005 recorded average. See MECO-WP-804 (page 3, line 6, columns L and M). The increase is due to the same factors previously mentioned in my testimony above.

Maui Division

Account No. 911 - Informational Advertising

Q. What is the Maui Division's 2007 test year estimate for account no. 911-informational advertising expenses?

A. The Maui Division's 2007 test year estimate is $34,000. See MECO-802 (line 3, column D). This includes $4,000 for labor and $30,000 for non-labor costs. See MECO-803 (column D, lines 4 and 9, respectively).

Q. What expenses are included in the Maui Division's account no. 911 – informational advertising?

A. This account includes the labor and non-labor expense estimates for advertising activities, which involves conveying information to the Company's customers on what the Company recommends to protect health and safety, to promote environmental protection, to utilize their electrical equipment safely and economically, and/or to conserve electric energy.

Q. How was the 2007 test year labor expense estimate for the Maui Division's account no. 911 – informational advertising determined?

A. The 2007 test year labor expense estimate is based on the 2007 operating budget, which in turn was determined based on a review of historical data coupled with the Company's knowledge of activities to be performed for ongoing operations and for additional workload. No adjustments or normalizations to the 2007 operating budget amounts for this expense component were made.

Labor Expense

Q. What expenses are included in Maui Division's account no. 911 - informational advertising labor expense of $4,000 for the 2007 test year?

A. The labor expense estimate of $4,000 for account no. 911 – informational advertising includes the cost for approximately 6% of the Company's Communication Specialist's time to administer the Company's public relations and informational advertising. See MECO-WP-802 (page 10).

Non-labor Expense

Q. What expenses are included in Maui Division's account no. 911 - informational advertising non-labor expense of $30,000 for the 2007 test year?

A. The non-labor expense in this account primarily includes costs for print advertising in newspapers and radio spots to educate the general public on topics such as energy conservation, renewable energy, and electrical safety. This account also includes educational advertisements placed in other types of print media. See MECO-WP-803 (page 2, line 54, column A).

Comparison with Recorded 2005 and Prior Periods

Q. How does the 2007 test year estimate for Maui Division's account no. 911 – informational advertising compare to the 2005 recorded expenses?

A. The 2007 test year estimate of $34,000 is approximately $18,000, or 113.3%, higher than the 2005 recorded expense of approximately $16,000. See MECO-804 (pages 1 and 2, line 9, columns E and I) and MECO-WP-804 (page 3, line 9, columns N and O).

Q. What are the reasons for the higher 2007 test year estimate as compared to the 2005 expense?

A. This increase is primarily attributed to an approximately $4,000 increase in labor expense and an approximately $14,000 increase in non-labor expense. See MECO-WP-804 (page 3, column N, lines 7 and 8, respectively).

Q. What accounts for the $4,000 increase in labor expense for the 2007 test year over the recorded 2005 expense?

A. The $4,000 increase in labor expense is primarily due to more of the Company's Communications Specialist's time being allocated toward the administration of the Company's informational advertising.

Q. What accounts for the $14,000 increase in non-labor expense for the Maui Division's 2007 test year over recorded 2005 expenses?

A. The $14,000 increase in non-labor costs in the 2007 test year over 2005 recorded expenses is primarily due to a plan for increased print and radio advertising to educate the public about electrical safety, energy conservation, and recent developments in renewable energy technologies. The purpose of these efforts is to aide the Company's consumers to make informed energy choices and to understand the importance of electrical safety.

Q. How do the 2007 test year labor and non-labor expense estimates for Maui Division's account no. 911 – informational advertising compare with recorded expenses in other periods?

A. A comparison of labor and non-labor expenses for Maui Division's account no. 911 – informational advertising, based on amounts shown on MECO-804 (page 2), are as follows:

2001 (recorded):	$45,000
2002 (recorded):	$32,000
2003 (recorded):	$21,000
2004 (recorded):	$14,000
2005 (recorded)	$16,000
2007 (test year estimate):	$34,000

The test year 2007 estimate is approximately $8,000, or 32.5%, higher than the 2001-2005 recorded average. See MECO-WP-804 (page 3, line 9, columns L and M). This increase represents normal levels of operating expenses.

LANAI DIVISION

CUSTOMER SERVICE EXPENSE

Q. What is the Company's 2007 test year estimate for customer service expense for the Lanai Division?

A. The 2007 test year estimate for customer service expense for the Lanai Division is $1,000, all in account no. 910 – customer assistance as shown in MECO-805 (lines 1 and 3, column D). This amount primarily consists of $1,000 in non-labor expenses. See MECO-806 (line 5, column D).

Q. What expenses are included in the Lanai Division's 2007 test year customer service expense?

A. The non-labor expense, which comprises the entire 2007 test year customer service expense for the Lanai Division, includes Maui Division's allocated costs

to travel and publish material to conduct programs in the schools and community on Lanai. See MECO-WP-803 (page 2, line 46, column A).

Comparison with Recorded 2005 and Prior Years

Q. How does the 2007 test year expense for account no. 910 – customer assistance compare with recorded 2005 expenses for the Lanai Division?

A. Overall, the 2007 test year customer assistance expense estimate of $1,000 is slightly higher than the 2005 recorded expense, excluding IRP/DSM amortization expenses. See MECO-WP-807 (page 3, lines 3 and 6, column N).

Q. What is the reason for the higher 2007 test year estimate as compared to the 2005 expense?

A. This increase is primarily due to the higher costs for energy-related publications to be used for educational programs and services in the community.

Q. How does the 2007 test year labor and non-labor expense estimates for account no. 910 – customer assistance compare with recorded expenses in other periods?

A. A comparison of labor and non-labor expense for account no. 910 – customer assistance, excluding IRP/DSM amortization expenses, based on amounts shown on MECO-807 (page 2), are as follows:

2001 (recorded):	$1,000
2002 (recorded):	$1,000
2003 (recorded):	$1,000
2004 (recorded):	$1,000
2005 (recorded)	$1,000
2007 (test year estimate):	$1,000

See MECO-WP-807 (page 3, lines 3 and 6) for more detailed information.

MOLOKAI DIVISION

CUSTOMER SERVICE EXPENSE

Q. What is the Company's 2007 test year estimate for customer service expense for the Molokai Division?

A. The 2007 test year estimate for customer service expense for the Molokai Division is $2,000, as shown in MECO-808 (line 3, column D). This amount primarily consists of $2,000 in non-labor expenses. See MECO-809 (line 6, column D).

Q. What expenses are included in the Molokai Division's 2007 test year customer service expense?

A. The non-labor expense, which comprises all of the 2007 test year customer service expense for the Molokai Division, includes Maui Division's allocated costs to travel and publish material to conduct programs in the schools and community on Molokai. See MECO-WP-803 (page 2, line 50, column A).

Comparison with Recorded 2005 and Prior Years

Q. How does the 2007 test year expense for account no. 910 – customer assistance compare with the recorded 2005 expenses for the Molokai Division?

A. Overall, the 2007 test year customer assistance expense estimate of $2,000 is higher than the 2005 recorded expenses excluding IRP/DSM amortization expenses. See MECO-810 (page 2, line 4, column I), and MECO-WP-810 (page 3, lines 3 and 6, column N).

Q. What is the reason for the higher 2007 test year estimate as compared to the 2005 expense?

A. This increase is primarily due to the higher costs for energy-related publications to be used for educational programs and services in the community.

Q. How do the 2007 test year labor and non-labor expense estimates for account no. 910 – customer assistance compare with recorded expenses in other periods?

A. A comparison of labor and non-labor expense for account no. 910 – customer assistance, excluding IRP/DSM amortization expenses, based on amounts shown below and on MECO-810 (page 2), are as follows:

2001 (recorded):	$1,000
2002 (recorded):	$1,000
2003 (recorded):	$1,000
2004 (recorded):	$1,000
2005 (recorded)	$0
2007 (test year estimate):	$2,000

See MECO-WP-810 (page 3) for more detailed information.

INTEGRATED RESOURCE PLANNING ("IRP") EXPENSE

Q. What is the total amount of IRP costs that the Company is proposing to be included in base rates for the 2007 test year?

A. The Company is proposing a total of $889,000 to be included in base rates. This amount is comprised of two (2) components, as indicated in MECO-811. The first component consists of $93,000 of the Company's base IRP costs (line 1, column A). The base IRP costs are comprised of labor and on-costs for the Company's Customer Service Department Manager and IRP Supervisor who oversee the Company's IRP functions. These positions are currently in base rates and the costs are treated as O&M costs to the Company in account no. 909 – supervision and account no. 910 – customer assistance. The second component consists of a $796,000 adjustment (line 2, column A), which represents the 2007 IRP normalized test year estimate of the Company's incremental IRP labor

($100,000) and non-labor costs ($696,000). This adjustment reflects the Company's change in its IRP incremental cost recovery method from recovery through the IRP Clause to recovery through base rates. A further discussion of the IRP normalization methodology and adjustment by the Company is presented below.

Q. What is IRP expense?

A. IRP expense includes those costs incurred for the long-range resource planning for the Company. It is a planning process in which the goal is to identify resources or a mix of supply-side and demand-side resources for meeting near and long-term consumer energy needs in an efficient and reliable manner at the lowest reasonable cost.

Q. What costs are associated with IRP planning?

A. IRP costs can be grouped into two (2) major categories: (1) the costs of planning, and (2) the costs of implementing particular options set forth in the Company's approved IRP. See Decision and Order No. 11317, filed on October 17, 1991, in Docket No. 6531, at 210. The IRP planning costs include those costs associated with the overall development of the IRP Plan, pursuant to the IRP Framework established by Decision and Order No. 11523, filed on March 12, 1992, as amended by Decision and Order No. 11630, filed on May 22, 1992, in Docket No. 6617. Also included in these IRP planning costs are the costs of data gathering, development of models, and research and development of options in meeting the demand for energy. The costs for implementing particular options as part of the Company's approved IRP include the costs of particular programs or projects selected to satisfy the demand for energy. See also Decision and Order No. 11630 and the IRP Framework.

Q. How does the Company currently recover planning-related costs of IRP?

A. The Company currently recovers planning-related costs through a combination of base rates and the IRP Clause. The Company recovers some of its labor expenses through base rates. Its incremental IRP costs are recovered through the IRP Clause. The Company's incremental costs include: (1) consultant services; (2) legal services; (3) information services; (4) labor and associated on-costs that are not included in base rates; and (5) materials and supplies, travel, training, and other miscellaneous costs.

Q. Is the Company now proposing a change to its existing method of recovering IRP costs?

A. Yes. The Company is proposing to include a normalized test year estimate of its incremental IRP-related costs in base rates consistent with the ratemaking treatment of IRP planning-related costs that HECO proposed in its test year 2005 rate case in Docket No. 04-0113, and the Commission granted in its Interim Decision and Order No. 22050, filed on September 27, 2005 ("Interim Decision and Order No. 22050").

Q. Why is the Company proposing to change the method for recovering incremental IRP costs?

A. In Decision and Order No. 18365, filed on February 8, 2001, in Docket No. 99-0207, which relates to Hawaii Electric Light Company, Inc.'s ("HELCO") test year 2000 rate case, the Commission found that it was appropriate for HELCO to recover its incremental IRP costs through base rates, rather than through the IRP Clause. The proposed change to the existing method for recovering the Company's incremental IRP cost will make the Company's ratemaking treatment of IRP planning-related costs consistent with Decision and Order No. 18365. As

previously stated, it is also consistent with the ratemaking treatment of IRP planning-related costs that HECO proposed in its test year 2005 rate case in Docket No. 04-0113, and the Commission granted in its Interim Decision and Order No. 22050.

Incremental IRP Costs

Labor

Q. What is the Company proposing for this rate case in connection with incremental IRP labor costs?

A. The Company is proposing to include $100,000 of incremental IRP labor expenses in base rates as a normalization adjustment in the 2007 test year estimate. See MECO-803 (line 3, column C). This normalization adjustment will result in an increase of $100,000 to the O&M expense budget account no. 910 - customer assistance. See MECO-812 (line 5, column B) for derivation of the labor adjustment. This increase represents the allocated IRP portions of the 2007 labor costs for an IRP Specialist position that was previously charged to deferred incremental account no. 186 - miscellaneous deferred debits, and provides support to the Company's IRP function.

Non-Labor

Q. What is the Company proposing for this rate case in connection with incremental IRP non-labor costs?

A. The Company is proposing to include $696,000 of incremental IRP non-labor costs in base rates as a normalization adjustment in the 2007 test year estimate. See MECO-803, line 8, column C. This normalization adjustment results in a $696,000 increase to the O&M expense budget account no. 910 - customer assistance. See MECO-812 (line 12, column B) for derivation of the labor

adjustment. The adjustment reflects the Company's proposal to recover incremental IRP costs as O&M expenses through base rates, rather than through the IRP Clause.

Q. What is the IRP adjustment?

A. The adjustment is to add $696,000 to test year 2007 account no. 910 – customer assistance, representing the account no. 910 – customer assistance portion of the total normalized 2007 incremental IRP costs (other than specific demand-side management program costs) that the Company is proposing to recover as O&M expenses through base rates, rather than through the IRP Clause. See MECO-812 (line 12, column B) for the IRP non-labor normalization adjustment and the derivation of the $696,000 adjustment to the O&M non-labor expense budget.

Normalization Methodology

Q. How was the normalization amount for IRP costs determined?

A. The normalization amounts for IRP labor and non-labor costs were determined by taking the average of the following:

1) actual incremental IRP-related cost incurred in 2005;
2) the actual incremental IRP-related cost incurred from January to July 2006 plus the estimated incremental IRP-related cost from August to December 2006; and
3) the adjusted forecasted amount of incremental IRP-related cost for 2007.

The derived average then served as a basis for the normalization adjustment.

Q. Why is this methodology for derivation of the normalization amount considered reasonable?

A. The Company's methodology for derivation of the normalization amount is reasonable because it is consistent with Decision and Order No. 18365. In Decision and Order No. 18365, the IRP costs to be included in base rates were derived in that case using an average of three (3) years (1997 – 1999). This methodology is also consistent with that used in HECO's test year 2005 rate case proposal in Docket No. 04-0113, (See HECO T-10, page 66.) and the Commission granted in its Interim Decision and Order No. 22050.

Q. Will the IRP Cost Recovery adjustment component of the IRP Clause be continued?

A. Yes, for 12 months after the later to occur of: (1) the effective date of the final rate case decision and order in this proceeding, or (2) the effective date of final decision(s) and order(s) approving the recovery of IRP Planning Costs for 1996 - 2006 in pending Docket Nos. 95-0362, 96-0431, 97-0350, 98-0339, 99-0338, 00-0360, 01-0409, 02-0359, 03-0276, 04-0295, and 05-0273. Incremental IRP costs are now recovered on an ex-post basis (e.g., IRP planning costs incurred in 2006 are recovered in 2007). The Company proposes that the existing IRP Adjustment component of the IRP Clause continue for another 12 calendar months after the effective date of the final rate case decision and order in this proceeding in order to recover the incremental IRP planning costs, and any necessary reconciliation of these costs, incurred prior to the effective date of the interim or final rate case decision and order that includes the previously accounted for incremental IRP planning costs in base rates.

In addition, the Commission has not issued final decision and orders approving the recovery of 2000-2006 IRP Planning Costs in Docket Nos. 99-0338, 00-0360, 01-0409, 02-0359, 03-0276, 04-0295, and 05-0273. In Decision

and Order No. 23160, filed December 27, 2006, in Docket Nos. 94-0316, 95-0362, 96-0431, 97-0350, 98-0339 (Consolidated), the Commission issued its final decision on MECO's 1995 IRP Planning Costs. The Commission ordered a disallowance of $10, 377 of MECO's previously recovered 1995 IRP Planning Costs. Pursuant to Decision and Order No. 23160, this amount is to be refunded to customers, with interest, pending the Commission's completion of the remaining 1996 – 1999 IRP Planning Cost dockets (Docket Nos. 95-0362, 96-0431, 97-0350, and 98-0339). The difference between IRP Planning Costs previously recovered and the amount approved in the Commission's final decision and order in the aforementioned dockets will be reconciled over a period of 12 calendar months through the IRP Adjustment component of the IRP Clause.

DSM PROGRAMS EXPENSE

Q. What is the Company's DSM Programs expense?

A. DSM Programs expense are base and incremental program expenses directly related to the administration and implementation of specific DSM programs designed to influence the customers' use of energy to produce desired changes in electrical demand. These programs include conservation, load management, and energy efficiency resource programs. Program costs include direct customer incentives, direct labor and administration, outside services, advertising and marketing, miscellaneous and evaluation expenses, and non-labor Information Technology Services (ITS) expenses to support all DSM programs. See also Decision and Order No. 11630 and the IRP Framework.

Q. What is the downward ($2,400,000) DSM adjustment to customer service expense as reflected in MECO-803 (line 8, column B)?

A. As noted in footnote (1) of MECO-803, the ($2,400,000) is a downward adjustment to remove the estimated 2007 amortization of deferred incremental DSM program costs that will be recovered through the DSM Surcharge of the IRP Clause. These costs are shown in MECO-803 (line 8, column B). These costs are, therefore, not included in the 2007 test year estimate of customer service expense.

DSM program costs are addressed in the Company's various DSM and IRP filings with the Commission, and are generally described below. For the 2007 test year, the adjustments remove the 2007 DSM amortization expense estimate of $2,400,000.

Q. Please provide and describe the historical background of the Company's DSM Programs

A. The Company's residential DSM Program was approved by the Commission by Decision and Order No. 14806, filed on July 26, 1996, in Docket No. 95-0139. In particular, the Company's Residential Efficient Water Heating ("REWH") DSM Program addresses energy efficiency measures in both the existing and new construction markets. The Company's three (3) commercial and industrial DSM Programs were approved by the Commission by Decision and Order Nos. 15009, 15008 and 15007, filed on September 23, 1996, in Docket Nos. 95-0140, 95-0141, and 95-0142, respectively. In particular, the Company's Commercial and Industrial Energy Efficiency ("CIEE") Program addresses prescriptive measures in the existing construction market. The Company's Commercial and Industrial New Construction ("CINC") Program addresses prescriptive measures and customized measures in the new construction market. The Company's Commercial and Industrial Customized Rebate ("CICR") Program addresses customized measures in the existing construction market.

On November 30, 2001, the Commission approved the temporary continuation of the Company's DSM Programs until one year after the Commission makes a determination on HECO's revenue requirements in its next rate case in an interim or final decision and order (i.e., Docket No. 04-0113). See Order No. 19093, filed on November 30, 2001, in Docket Nos. 95-0139, 95-0140, 95-0141, and 95-0142 (Consolidated).

On November 12, 2004, HECO filed its 2005 test year rate case in Docket No. 04-0113, which included the extension and enhancements of HECO's existing seven (7) DSM programs and the addition of three (3) new DSM programs. On March 16, 2005, the Commission in Order No. 21698 bifurcated HECO's 2005 test year rate case application and established the Energy Efficiency Docket (i.e., Docket No. 05-0069) to not only review HECO's existing and new DSM programs, but also an investigation on statewide energy policy issues.

In Decision and Order Nos. 14806, 15007, 15008 and 15009, the Commission approved MECO's reporting mechanism to file two (2) annual reports, an Annual Program Modifications and Evaluation Report ("M&E Report") to be filed in the November timeframe of each program year, and an Annual Program Accomplishments and Surcharge Report ("A&S Report") to be filed in the March timeframe following the end of each program year. The 2005 M&E Report, which provided a forecast of the program budgets and impacts for 2006, was filed with the Commission on November 30, 2005, in Docket No. 95-0139, 95-0140, 95-0141, and 95-0142 (Consolidated). The 2006 A&S Report was filed with the Commission on March 31, 2006, in Docket No. 95-0139, 95-0140, 95-0141, and 95-0142 (Consolidated).

The M&E Report serves three (3) purposes. First, it provides forecasts of the budgets and impact (i.e., energy and demand savings) goals for the upcoming calendar year. Second, it describes the modifications in DSM program processes that the Company proposes to introduce in the upcoming calendar year. Third, it provides results of both the DSM program Impact Evaluation Reports and the DSM program process evaluations, as they become available.

The A&S Report presents the costs incurred in a program year and documents the revenues collected. Variances between costs incurred and revenues collected, along with the forecasts in the previous year's M&E Report, are used to establish the current year's surcharge. The A&S Report also describes the accomplishments of the programs, reassesses the cost-effectiveness of the programs, and provides the surcharge to recover estimated program costs and lost margins, and shareholder incentives earned in the previous year.

Q. What was the outcome of the HECO rate case in Docket No. 04-0113 relative to continuation of the Company's DSM programs?

A. As previously indicated, by Order No. 21698, filed March 16, 2005, in Docket No. 05-0069, the Commission opened the Energy Efficiency Docket separating HECO's requests for approval and/or modification of its existing and new DSM programs and recovery of such program costs and DSM utility incentives from HECO's 2005 test year rate case. On April 26, 2006, the Commission issued Interim Decision and Order No. 22420, which, among other things, required the discontinuance of HECO's recovery of lost margins and shareholder incentives for its DSM programs within thirty days. On May 25, 2006, the Company filed a request to the Commission in Docket Nos. 95-0139, 95-0140, 95-0141, and 95-0142 (Consolidated) for approval to temporarily continue to accrue, through

May 25, 2007, lost margins and shareholder incentives in the manner currently employed for its DSM programs. On October 5, 2006, the Commission issued Order No. 22927 in Docket Nos. 95-0139, 95-0140, 95-0141, and 95-0142 (Consolidated) approving the Company's recovery of lost margins and shareholder incentives through September 27, 2006, and that subsequent to that date the recovery of lost margins and shareholder incentives is terminated.

Q. How does the Energy Efficiency Docket impact the Company's continuation and cost recovery of its DSM programs?

A. On February 13, 2007, the Commission issued Decision and Order No. 23258 ("D&O 23258") in the Energy Efficiency Docket, Docket No. 05-0069. As discussed in MECO T-1, due to the proximity of the timing of the issuance of D&O 23258 and the preparation of the testimonies, exhibits and workpapers in this docket, MECO has not had an opportunity to fully evaluate D&O 23258. Following MECO's completion of its review of D&O 23258, MECO will take into account the impacts of D&O 23258, as appropriate, at MECO's next opportunity.

<u>DSM Program Cost Recovery</u>

Q. How are DSM program expenses differentiated from other costs?

A. DSM program expenses are defined by the Company as those costs incurred specifically by activities that directly result in, and are explicitly for the purpose of, administration and implementation of its four (4) full-scale DSM programs (REWH, CIEE, CINC and CICR) mentioned above. Base DSM program expenses are charged to account no. 910 – customer assistance expense (activity 713) while incremental DSM program expenses are charged to account no. 186 – miscellaneous deferred debits (activity 714).

Q. How are the Company's DSM program expenses currently being recovered?

A. The majority of the Company's DSM program expenses are currently being recovered through the DSM Surcharge, in conformance with Decision and Order Nos. 14806, 15007, 15008 and 15009.

Q. Are there any DSM program expenses recovered through the Company's base rates?

A. Yes. There are some DSM program expenses that are recovered through base rates for time spent by the Company's employees who are not dedicated to the Company's DSM Programs. To implement its DSM programs, a portion of the labor expenses of the following employees are allocated to the three (3) commercial DSM programs (CIEE, CINC and CICR) and the one residential DSM program (REWH) and are recovered in base rates. These employees include the Commercial Account Managers and IRP Supervisor who work on DSM related activities, as required. Their time is charged to account no. 910 – customer assistance, activity 713. See MECO-WP-802, pages 3 and 4.

Q. What DSM Program expenses are recovered through the DSM Surcharge?

A. Costs of three (3) MECO employees dedicated to the administration and implementation of the DSM Programs, inter-company assistance from various HECO departments, outside consultants and legal assistance, agency contracted labor services and all non-labor costs are recovered through the DSM Surcharge. The three employees are the Commercial and Industrial Energy Efficiency Program Manager, the Residential Energy Efficiency Program Manager and the Clerk Typist III positions. (See MECO T-7 for testimony on the Customer Service Department workforce.) These "incremental" DSM program costs, in addition to the base rate labor costs cited above, are reported in the Company's A&S Report.

The latest A&S Report was filed March 31, 2006, in Docket Nos. 95-0139, 95-0140, 95-0141, and 95-0142.

Q. What is the amount in test year 2007 to be recovered through the DSM Surcharge?

A. The 2007 operating budget, as shown in MECO-803 (line 8, column B), includes $2,400,000 in full scale DSM expenses to be recovered through the DSM Surcharge. These expenses are forecasted and charged to account no. 186 – miscellaneous deferred debits.

Q. Are any labor costs related to DSM recovered twice, through base rates as well as through the DSM Surcharge?

A. No. The allocated costs of the Company's employees, who were described above (i.e., the Commercial Account Managers and IRP Supervisor), are recovered only once in base rates, and the Company does not seek cost recovery of base rate labor costs through the DSM Surcharge. In its A&S Report, the Company provides DSM program costs, both base rate costs and incremental costs, to portray the total costs to implement the DSM programs and calculate the programs' cost effectiveness, but base rate costs are excluded from recovery through the DSM Surcharge.

<u>DSM Activities</u>

Q. What has the Company accomplished in the area of DSM?

A. The Company's ongoing activities continue to provide services designed to help customers manage their energy demand and usage. For example, the Company's Customer Service Department staff works with its customers to promote use of efficient electrical equipment, load management and curtailment, load shifting, peak clipping, and conservation. Through its DSM programs, the Company provides the opportunity to receive financial incentives to both commercial and

residential customers, in both existing and new facilities, and to assist customers to utilize energy-efficient equipment. The Company has also sponsored energy efficiency workshops and seminars in the past, and provides customized consultation to customers that facilitate the development and implementation of energy conservation measures (ECM's) at customer sites. In addition, the Company has many educational programs for its residential customers on energy conservation, energy efficiency, and electrical safety. Many of these programs are jointly sponsored with government agencies, business and community groups. The Company is in its tenth full operating year in successfully implementing its four (4) full-scale DSM programs: REWH, CIEE, CINC and CICR.

New DSM Programs

Q. What is the status of the Commission's approval of the Company's new DSM programs?

A. The Company is currently in the final stages of development of its third IRP (IRP-3) plan in Docket No. 04-0077. In its IRP-3, the Company is proposing, with the assistance of its public advisory group, new DSM programs that will offer customers more options than currently available to manage their energy use. The Company plans to review D&O 23258, as discussed earlier in my testimony, and determine its impact on MECO's new DSM programs.

Q. Are the energy and capacity savings from the DSM programs reflected in the 2007 test year sales estimate?

A. Yes. Ms. Joanne Ide in MECO T-2 discusses the energy and capacity savings as a result of the Company's existing DSM programs and the impact on the 2007 test year sales estimate.

SUMMARY

Q. Please summarize your testimony.

A. The 2007 test year estimate for customer service expense is $1,541,000. The increase in expenses is necessitated by an increase in staff to address the increased need to provide information and assistance to customers relating to the safe, efficient and economical use of electricity, and a change in the recovery of IRP Planning Costs, that were previously incremental costs recovered through the IRP Clause, to be recovered through base rates.

Q. Does this conclude your testimony?

A. Yes, it does.

MAUI ELECTRIC COMPANY, LIMITED

2007 TEST YEAR
CUSTOMER SERVICE EXPENSE
($ THOUSANDS)

Line		2007 Test Year
1	Maui Division	1,538
2	Lanai Division	1
3	Molokai Division	2
4	MECO Consolidated	1,541

SOURCE:
Line 1: MECO-802, Column D, Line 4
Line 2: MECO-805, Column D, Line 3
Line 3: MECO-808, Column D, Line 3

MAUI ELECTRIC COMPANY, LIMITED
Maui Division

2007 Test Year
CUSTOMER SERVICE EXPENSE BY ACCOUNTS
($ THOUSANDS)

Line			A	B	C	D
			2007 Operating Budget	Budget Adjustments	Normalization	Test Year Estimate
1	909	Supervision	66	-		66
2	910	Customer Assistance	3,042	(2,400)	796	1,438
3	911	Informational Advertising	34			34
4	Total		3,142	(2,400)	796	1,538

SOURCE:
MECO-803
MECO-WP-801
MECO-WP-802

Note: Differences between exhibits and workpapers are due to rounding.

MAUI ELECTRIC COMPANY, LIMITED
Maui Division

2007 Test Year
CUSTOMER SERVICE EXPENSES
BY LABOR AND NON-LABOR EXPENSES
($ THOUSANDS)

Line		A 2007 Operating Budget	B Budget Adjustments[1]	C Normalization[2]	D Test Year Estimate
1	Labor				
2	909 Supervision	59			59
3	910 Customer Service	374		100	474
4	911 Informational Advertising	4			4
5	TOTAL LABOR	437	-	100	537
6	Non-Labor				
7	909 Supervision	7			7
8	910 Customer Service	2,668	(2,400)	696	964
9	911 Informational Advertising	30			30
10	TOTAL NON-LABOR	2,705	(2,400)	696	1,001
11	TOTAL	3,142	(2,400)	796	1,538

SOURCE:
MECO-WP-804, page 3 of 3
Non-labor: MECO-WP-803

(1) The adjustment of -$2,400 represents the estimated 2007 amortization of deferred incremental DSM costs. This amount will be recovered through the DSM surcharge component ("DSM Surcharge") of the IRP Cost Recovery Provision ("IRP Clause"), and are therefore excluded from the test year estimate.

(2) The normalization shown in column C represents the normalized 2007 incremental IRP costs that are proposed to be recovered as O&M expenses through base electric rates, rather than through the IRP Clause.

Note: Differences between exhibits and workpapers are due to rounding.

Maui Electric Company, Limited
Maui Division

2001 - 2007
CUSTOMER SERVICE EXPENSE
Accounts 909, 910 and 911 by Labor and Non-labor Expenses
($ THOUSANDS)

		A	B	C	D	E	F	G	H	I
		<----------Recorded---------->					Operating Budget	Budget		Test Year Estimate
Line		2001	2002	2003	2004	2005	2007	Adjustment	Normalization	2007
	909 Supervision									
1	Labor	73	76	39	41	37	59	0	0	59
2	Non-labor	7	13	9	6	2	7	0	0	7
3	Total 909	80	89	48	47	39	66	0	0	66
	910 Cust. Assistance									
4	Labor	383	346	360	274	256	374	0	100	474
5	Non-labor	4,960	5,144	2,879	3,162	2,672	2,668	-2,400	696	964
6	Total 910	5,343	5,490	3,239	3,436	2,928	3,042	-2,400	796	1,438
	911 Informational Advertising									
7	Labor	0	0	0	0	0	4	0	0	4
8	Non-labor	45	32	21	14	16	30	0	0	30
9	Total 911	45	32	21	14	16	34	0	0	34
10	Total Customer Service Expense	5,468	5,611	3,308	3,497	2,983	3,142	-2,400	796	1,538

SOURCE:
MECO-WP-804

Note: Differences between exhibits and workpapers are due to rounding.

Maui Electric Company, Limited
Maui Division

2001 - 2007
CUSTOMER SERVICE EXPENSE
Accounts 909, 910 and 911 by Labor and Non-labor Expenses W/O IRP & DSM Amortization Expenses
($ THOUSANDS)

		A	B	C	D	E	F	G	H	I
		<----------Recorded---------->					Operating Budget	Budget		Test Year
Line		2001	2002	2003	2004	2005	2007	Adjustments	Normalization	2007
	909 Supervision									
1	Labor	73	76	39	41	37	59	0	0	59
2	Non-labor	7	13	9	6	2	7	0	0	7
3	Total 909	80	89	48	47	39	66	0	0	66
	910 Cust. Assistance									
4	Labor	383	346	360	274	256	374	0	100	474
5	Non-labor	162	250	182	224	199	2,668	-2,400	696	964
6	Total 910	545	596	542	498	455	3,042	-2,400	796	1,438
	911 Informational Advertising									
7	Labor	0	0	0	0	0	4	0	0	4
8	Non-labor	45	32	21	14	16	30	0	0	30
9	Total 911	45	32	21	14	16	34	0	0	34
	Customer Service Expense									
10	Labor	456	422	399	315	293	437	0	100	537
11	Non-labor	169	263	191	230	201	2,675	-2,400	696	971
12	Total Customer Service Expense	670	717	611	559	510	3,142	-2,400	796	1,538

SOURCE:
MECO-WP-804

Note: Differences between exhibits and workpapers are due to rounding.

MAUI ELECTRIC COMPANY, LIMITED
Lanai Division

2007 Test Year
CUSTOMER SERVICE EXPENSE BY ACCOUNTS
($ THOUSANDS)

Line			A 2007 Operating Budget	B Budget Adjustments	C Normalization	D Test Year Estimate
1	910	Customer Assistance	1	0		1
2	911	Informational Advertising				0
3	Total		1	0	0	1

SOURCE:
MECO-806

MAUI ELECTRIC COMPANY, LIMITED
Lanai Division

2007 Test Year
CUSTOMER SERVICE EXPENSES
BY LABOR AND NON-LABOR EXPENSES
($ THOUSANDS)

Line		A 2007 Operating Budget	B Budget Adjustments	C Normalization	D Test Year Estimate
1	Labor	0	0	0	0
2	TOTAL LABOR	0	0	0	0
3	Non-Labor				
4	910 Customer Service	1	0	0	1
5	TOTAL NON-LABOR	1	0	0	1
6	TOTAL	1	0	0	1

SOURCE:
MECO-WP-803
MECO-WP-807

NOTE: Differences between exhibits and workpapers are due to rounding.

Maui Electric Company, Limited
Lanai Division

2001 - 2007
CUSTOMER SERVICE EXPENSE
Accounts 909, 910 and 911 by Labor and Non-labor Expenses
($ THOUSANDS)

		A	B	C	D	E	F	G	H	I
		<----------Recorded---------->					Operating Budget	Budget		Test Year Estimate
Line		2001	2002	2003	2004	2005	2007	Adjustment	Normalization	2007
	910 Cust. Assistance Lanai									
1	Labor	0	0	0	0	0	0	0	0	0
2	Non-labor	103	92	33	41	36	1	0	0	1
3	Total 910L	103	92	34	41	36	1	0	0	1
4	Total Customer Service Expense	103	92	34	41	36	1	0	0	1

SOURCE:
MECO-WP-803
MECO-WP-807

NOTE: Differences between exhibits and workpapers are due to rounding.

Maui Electric Company, Limited
Lanai Division

2001 - 2007
CUSTOMER SERVICE EXPENSE
Accounts 909, 910 and 911 by Labor and Non-labor Expenses W/O IRP & DSM Amortization Expenses
($ THOUSANDS)

		A	B	C	D	E	F	G	H	I
		<----------Recorded---------->					Operating Budget	Budget		Test Year
Line		2001	2002	2003	2004	2005	2007	Adjustments	Normalization	2007
	910 Cust. Assistance Lanai									
1	Labor	0	0	0	0	0	0	0	0	0
2	Non-labor	1	1	1	1	0	1	0	0	1
3	Total 910L	1	1	1	1	0	1	0	0	1
	Customer Service Expense									
4	Labor	0	0	0	0	0	0	0	0	0
5	Non-labor	1	1	1	1	0	1	0	0	1
6	Total Customer Service Expense	1	1	1	1	0	1	0	0	1

Source:
MECO-WP-803
MECO-WP-807

NOTE: Differences between exhibits and workpapers are due to rounding.

MAUI ELECTRIC COMPANY, LIMITED
Molokai Division

2007 Test Year
CUSTOMER SERVICE EXPENSE BY ACCOUNTS
($ THOUSANDS)

Line			A 2007 Operating Budget	B Budget Adjustments	C Normalization	D Test Year Estimate
1	910	Customer Assistance	2	0		2
2	911	Informational Advertising				0
3	Total		2	0	0	2

SOURCE:
MECO-809

MAUI ELECTRIC COMPANY, LIMITED
Molokai Division

2007 Test Year
CUSTOMER SERVICE EXPENSES
BY LABOR AND NON-LABOR EXPENSES
($ THOUSANDS)

Line		A 2007 Operating Budget	B Budget Adjustments	C Normalization	D Test Year Estimate
1	Labor				
2	910 Customer Assistance	0	0	0	0
3	TOTAL LABOR	0	0	0	0
4	Non-Labor				
5	910 Customer Assistance	2	0	0	2
6	TOTAL NON-LABOR	2	0	0	2
7	TOTAL	2	0	0	2

SOURCE:
MECO-WP-803
MECO-WP-810

NOTE: Differences between exhibits and workpapers are due to rounding.

Maui Electric Company, Limited
Molokai Division

2001 - 2007
CUSTOMER SERVICE EXPENSE
Accounts 909, 910 and 911 by Labor and Non-labor Expenses
($ THOUSANDS)

Line		A	B	C	D	E	F	G	H	I
		<----------Recorded---------->					Operating Budget	Budget		Test Year Estimate
		2001	2002	2003	2004	2005	2007	Adjustment	Normalization	2007
	910 Cust. Assistance Molokai									
1	Labor	0	0	0	0	0	0	0	0	0
2	Non-labor	119	113	52	62	51	2	0	0	2
3	Total 910M	119	113	52	62	51	2	0	0	2
4	Total Customer Service Expense	119	113	52	62	51	2	0	0	2

SOURCE:
MECO-WP-803
MECO-WP-810

NOTE: Differences between exhibits and workpapers are due to rounding.

Maui Electric Company, Limited
Molokai Division

2001 - 2007
CUSTOMER SERVICE EXPENSE
Accounts 909, 910 and 911 by Labor and Non-labor Expenses W/O IRP & DSM Amortization Expenses
($ THOUSANDS)

		A	B	C	D	E	F	G	H	I
		<----------Recorded---------->					Operating Budget	Budget		Test Year
Line		2001	2002	2003	2004	2005	2007	Adjustments	Normalization	2007
	910 Cust. Assistance Molokai									
1	Labor	0	0	0	0	0	0	0	0	0
2	Non-labor	1	1	1	1	0	2	0	0	2
3	Total 910M	1	1	1	1	0	2	0	0	2
	Customer Service Expense									
4	Total Customer Service Expense	1	1	1	1	0	2	0	0	2

SOURCE:
MECO-WP-803
MECO-WP-810

NOTE: Differences between exhibits and workpapers are due to rounding.

MAUI ELECTRIC COMPANY, LIMITED

TOTAL INTEGRATED RESOURCE PLANNING COSTS
2007 TEST YEAR
($THOUSANDS)

Line		A	B
		Test Year 2007	Reference
1	Base Integrated Resource Planning Costs	93	MECO-WP-811
2	Incremental Integrated Resource Planning Costs (normalized)	796	MECO-812
3	TOTAL	889	

Note: Differences between exhibits and workpapers are due to rounding.

MAUI ELECTRIC COMPANY, LIMITED

INCREMENTAL INTEGRATED RESOURCE PLANNING COSTS
NORMALIZATION
($ THOUSANDS)

Line		A	B Normalization	C Notes
	910 - Customer Assistance (Labor)			
	LABOR			(1)
1	2005	90.343		
2	2006 FORECAST	107.996		
3	2007	101.076		
4	2005 - 2007 AVG - LABOR	99.800		
5	NORMALIZATION - LABOR		100	
	910 - Customer Assistance (Non Labor)			
	NON LABOR			
6	2005	590.813		
	2006 FORECAST			
7	JAN - JUL ACTUAL	389.572		
8	AUG - DEC UPDATE	378.267		
9	REVISED FCST UPDATE	767.839		
10	2007	728.881		(2)
11	2005 - 2007 AVG - NON-LABOR	695.800		
12	NORMALIZATION - NON-LABOR		696	
13	TOTAL		796	
14	Test Year Normalized Cost		796	
15	2007 IRP deferred incremental costs		-	
16	Acct. 910 Adjustment to Operating Forecast		796	

Notes:

(1) Represents labor costs for IRP Specialist previously charged to deferred incremental account no. 186.

(2) Labor ($101) and Nonlabor ($729) total to $830 which represents the 2007 MECO IRP Incremental Budget filing amount per Docket No. 2006-0393, Attachment A.

SOURCE:
MECO-WP-812

Note: Differences between exhibits and workpapers are due to rounding.

MECO T-9
DOCKET NO. 2006-0387

TESTIMONY OF
LYLE J. MATSUNAGA

MANAGER
ACCOUNTING
MAUI ELECTRIC COMPANY, LTD.

Subject: A&G Operations & Maintenance Expense, and Certain Accounting Matters

INTRODUCTION

Q. Please state your name and business address.

A. My name is Lyle J. Matsunaga, and my business address is 210 West Kamehameha Avenue, Kahului, Hawaii.

Q. By whom are you employed and in what position?

A. I am employed by Maui Electric Company, Limited ("MECO" or "Company") and my position is Manager of Accounting. My educational background and experience are provided in MECO-900.

Q. What are your areas of responsibility with respect to this case?

A. With respect to MECO T-9, I am responsible for presenting the Company's overall normalized 2007 test year estimates for Administrative and General ("A&G") Expenses, which include account nos. 920 - 932. I am the Company's primary witness for all A&G expense accounts except for account nos. 926000 - 926010 related to employee benefits costs, which are the responsibility of Ms. Julie K. Price (MECO T-10). In addition, I am responsible for addressing the following Accounting Matters:

1) Budget Process
2) Staffing – Accounting Department
3) General Inflation Factor
4) Accounting for pension and post retirement benefits other than pension plans
5) Abandoned Capital Project Costs
6) Accounting for Computer Software Development Costs

Q. Do you have other responsibilities with respect to this case?

A. Yes, I am also the Company's witness in MECO T-12, responsible for presenting the Company's overall normalized 2007 test year estimates with respect to Depreciation Expense and Accumulated Depreciation.

ADMINISTRATIVE AND GENERAL EXPENSES

Q. What is the Company's normalized estimate of total A&G expenses for the 2007 test year?

A. The Company's normalized estimate of total A&G expenses for the 2007 test year is $13,559,700, which is comprised of $12,549,600 for the Maui division, $343,700 for the Lanai division, and $666,400 for the Molokai division. The $13,559,700 represents the total combined test year estimates for account nos. 920 through 932, as follows:

Primary Account No.	Account Description	Test year 2007 Estimate ($ Thousands)
Administrative		
920	A&G Salaries	$ 2,188
921	Office Supplies & Expenses	912
922	Admin. Expenses-Transferred	(1,219)
Outside Services		
923	Outside Services	1,983
Insurance		
924	Property Insurance	750
925	Injuries & Damages	1,311
Employee Benefits		
926	Employee Benefits	5,797
Miscellaneous		
928	Regulatory Commission Expenses	342
930.1	Institutional/Goodwill Advert Exp	3
930.2	Miscellaneous General Exp	1,328
931	Rent Expense	6
932	Maintenance of General Plant	159

Total A&G Expenses $13,560

Q. Is the total test year 2007 normalized A&G expense estimate presented by detailed accounts and sub-accounts?

A. Yes, the total test year 2007 normalized A&G expenses are shown in greater detail in MECO-901 and MECO-902. MECO-901 presents the 2007 test year estimates in total and by division (Maui, Lanai and Molokai), by accounts and sub-accounts, and by labor and non-labor amounts for each account/sub-account. Further, the account and sub-account amounts are presented in terms of the 2007 Operating Budget, applicable budget adjustments, applicable rate case and/or normalization adjustments, and the resulting 2007 test year estimates. MECO-902 presents the actual (recorded) account and sub-account amounts for 2001 through 2005, the 2006 Operating Budget amounts, the 2007 Operating Budget amounts, applicable adjustments (applicable budget, rate case and normalization adjustments), and the resulting normalized 2007 test year estimates.

Q. How were the normalized 2007 test year estimates developed?

A. The normalized test year estimates are based on the 2007 Operating Budget, as adjusted for (1) budget adjustments, (2) rate case adjustments, and (3) normalization adjustments ("normalizations"), as reflected in MECO-901 and MECO-902.

Q. How does the total 2007 test year A&G expense estimate compare with the actual expenses for 2005?

A. The total normalized 2007 test year estimate of $13,559,700 is $3,156,100 more than the 2005 recorded A&G Expenses of $10,403,600 (see MECO-902).

Q. What information is provided to explain the differences between the 2007 Operating Budget amounts and the 2005 recorded amounts?

A. Detailed variance explanations are provided in MECO-904 for A&G Operation and Maintenance (O&M) codeblock accounts with variances between 2005 recorded and 2007 budget (before adjustment) amounts greater than +/- 10% and $45,000.

Q. Why are the variance explanations in MECO-904 being provided?

A. The variance explanations in MECO-904 are being provided because, as in past rate case proceedings, MECO has (as has HECO and HELCO) made a commitment to the Consumer Advocate to provide such variance explanations in order to facilitate this proceeding.

Q. Which other MECO witnesses provide similar O&M variance explanations?

A. Each O&M witness provides a variance analysis of the differences between actual 2005 and 2007 budget expenses by code block. Besides my explanation of Administrative & General O&M expense variances in this T-9 testimony, Production O&M expenses are covered by Mr. Michael Ribao in MECO T-5; T&D O&M expenses are covered by Mr. Andrew Herrera in MECO T-6; and Customer Accounts O&M expenses and Customer Service O&M expenses are covered by Ms. Sharon Suzuki in MECO T-7 and T-8, respectively.

<u>General Nature of A&G Expenses</u>

Q. What is the general nature of A&G expenses?

A. A&G expenses represent a diverse group of expenses under the National Association of Regulatory Utility Commissioners Uniform System of Accounts ("NARUC USOA"), which the Commission has directed MECO to follow.

Q. Why are A&G expenses so diverse?

A. Under the NARUC USOA, A&G expenses often times represent operating expenses not provided for in other functional areas. For example, the NARUC

USOA description for account no. 923.00 - Outside Services includes the statement, "This account shall include the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts." Another reason for the diversity in A&G expenses is that these expenses represent the total Company costs for certain specific items, e.g. property insurance (account no. 924.00).

Q. How will A&G expenses be organized and presented in this case?

A. Because A&G expenses cover such a diverse group of expenses, the A&G expense estimates will be presented and analyzed by individual account numbers. However, to make the presentation more meaningful, my testimony has been arranged into five groups of related accounts:

Administrative (account nos. 920 – 922),
Outside Services (account nos. 923.01 – 923.03).
Insurance (account nos. 924 – 925),
Employee Benefits (account nos. 926.000 – 926.020), and
Miscellaneous (account nos. 928 – 932).

Administrative

Q. What are the accounts and test year estimates for the administrative group of accounts?

A. The 2007 test year estimate for the administrative group of accounts is $1,881,500 for total MECO, which is comprised of $1,860,600 for Maui, $0 for Lanai, and $20,900 for Molokai, as shown in MECO-901, pages 16, 1, 6 and 11, respectively. The total MECO estimate by account number is as follows:

Account No.	Description	Test year 2007 Estimate ($ Thousands)

920	A&G Salaries	$2,188
921	Office Supplies & Expenses	912
922	A&G Expenses Transferred	(1,219)
		$1,882 *

* Sum of amounts may not equal total due to rounding.

Q. What is the nature of administrative expenses?

A. The administrative group of expenses represents the expenses incurred in connection with the general administration of the Company's operations that are not chargeable against other specific functional accounts. Administrative expenses include the labor and related non-labor costs of Company officers and their assistants, as well as employees in diverse functional areas such as accounting, administration, personnel, information services, and purchasing.

Q. Where are gross administrative expenses charged?

A. Administrative labor costs are charged to account no. 920 - administrative and general salaries, while related non-labor costs are charged to account no. 921 - office supplies and expenses.

Q. Do all of the gross costs remain classified as Administrative expenses?

A. No. Some of the administrative activities support the Company's construction effort and work billable to outside third parties for services rendered (e.g. repair of damaged poles). An appropriate portion of gross administrative costs charged to account nos. 920 and 921 is transferred, therefore, to construction projects and billable work. This transfer is accomplished by means of an on-cost ("overhead") charge to construction projects and billable work, with a concurrent credit to

account no. 922 - administrative expenses transferred -credit. The Company's use of on-cost (or "overhead") rates is discussed in more detail later in this testimony.

Account No. 920 - Administrative and General Salaries

Q. What expenses are charged to account no. 920, administrative and general salaries?

A. This account includes the compensation (salaries, bonuses, and other consideration for services, but not including directors' fees) of officers, executives, and other MECO employees properly chargeable to utility operations and not chargeable directly to a particular operating function.

Q. What is the test year 2007 normalized estimate for account no. 920 - administrative and general salaries?

A. As shown in MECO-901, page 16, the test year 2007 normalized estimate for account no. 920 is $2,188,400 ($2,176,900 is for Maui and $11,500 is for Molokai).

Q. Which MECO departments have labor charges included in the 2007 test year estimate for account no. 920?

A. The 2007 test year estimate for account no. 920 includes labor charges for the following MECO departments: (1) President's Office; (2) Accounting; (3) Administration; (4) Customer Service; (5) Engineering; and (6) Transmission & Distribution. Later in this testimony, I address staffing for the Accounting Department. Mr. Andrew Herrera addresses staffing for the Transmission & Distribution and Engineering Departments in MECO T-6. Ms. Sharon Suzuki addresses staffing for the Customer Service Department in MECO T-7. Ms. Eileen Wachi addresses staffing for the President's Office and Administration Department in MECO T-11.

Q. What adjustments were made to the 2007 Operating Budget amounts in arriving at the 2007 test year estimate?

A. The 2007 test year estimate includes one adjustment to exclude performance incentive compensation ("PIC") in the amount of $339,800.

Q. What does PIC consist of?

A. PIC includes an Executive Incentive Compensation Plan ("EICP"), a Long-term Incentive Plan ("LTIP"), and a key contributor/team award program.

Q. Is MECO requesting recovery of the costs for these programs?

A. No. While MECO believes these costs are necessary and appropriate business expenses, the Company is not requesting cost recovery at this time to reduce the number of issues in this proceeding. The Company does not waive, however, its right to seek recovery of these costs in future rate cases.

Q. Is PIC included in any test year 2007 amounts with respect to billings from HECO or HEI?

A. No. PIC is not included in the estimated test year inter-company billings from HECO or Hawaiian Electric Industries, Inc. ("HEI") included in account no. 923.03– other services - associated companies.

Q. How does the 2007 test year estimate for account no. 920 - administrative and general salaries compare to prior year amounts?

A. A comparison is provided below based on the amounts shown in MECO-902, reduced by the amount of PIC included in account no. 920 each year:

	($ Thousands)		
	Per MECO-902*	Less PIC	Adj. Total
2001 Recorded	2,058	479	1,579
2002 Recorded	1,587	(55)	1,642

2003 Recorded	2,119	417	1,702
2004 Recorded	2,088	245	1,843
2005 Recorded	2,128	276	1,852
2006 Budget	2,481	382	2,099
2007 Test Year	2,528	340	2,188

* A breakdown of the MECO-902 amounts, before adjustments, by responsibility area code is provided in MECO-WP-101(C).

Q. Why is the 2007 test year estimate of $2,188,000 higher than the amount recorded for 2005?

A. The 2007 test year estimate of $2,188,000 is $336,000, or 18.1%, higher than the $1,852,000 recorded for 2005 (excluding PIC) due primarily to the following:

1. General wage increases - $139,000
2. Additional A&G positions - $115,000
3. Increased hours for existing A&G positions - $107,000

<u>1. General Wage Increase - $139,000 increase</u>

Q. What is the impact of general wage increases?

A. General wage rates for test year 2007 are expected to be, on average, 6.5% higher than recorded 2005 wage rates for bargaining unit employees and 7.6% higher for merit employees (see MECO-905). This accounts for approximately $139,000 (7.5% average wage increase x $1,852,000 recorded 2005 Account 920 costs excluding PIC) of the increase in labor costs between 2005 and test year 2007, other things being equal. I discuss further the assumptions used in determining the bargaining unit and merit salary increases that are included in the 2007 Budget later in this testimony under Budget Process. Ms. Julie Price, in MECO T-10,

discusses in more detail how the bargaining unit and merit salary increases are determined.

2. Additional A&G Positions - $115,000 increase

Q. How many new positions (charged to account no. 920) are to be added by the Company between 2005 and 2007?

A. The Company will be adding a net of two positions to the Company's staffing in areas that charge labor costs to administrative and general expense (account no. 920) between 2005 and 2007. These include one Accounting position and one Information Services position.

a. Accounting position - $54,000 increase

Q. What additional position has been added to the Accounting Department between 2005 and 2007?

A. A second Utility Plant Clerk position was added in April 2006. This position was filled in April 2006 and remained filled as of January 1, 2007.

Q. Why is the second Utility Plant Clerk needed?

A. The second Utility Plant Clerk position is needed to assist with the increasing workload associated with MECO's growing additions to and retirements from utility plant.

Q. What is the impact of adding a second Utility Plant Clerk position?

A. The addition of a second Utility Plant Clerk position results in a $54,000 increase in A&G salaries and wages expense for test year 2007 over recorded 2005.

b. Information Services position - $61,000 increase

Q. What is the new position being added to the Information Services Division between 2005 and 2007?

A. A second Geographic Information Systems Administrator position is included in the 2007 Budget. This position was filled as of January 1, 2007.

Q. Why is the second Geographic Information Systems Administrator position needed?

A. The second Geographic Information Systems Administrator position is needed to assist with the increasing workload associated with updating and maintaining the GIS system and the transmission and distribution data that is updated and maintained in that system.

Q. What is the impact of adding the new Geographic Information Systems Administrator position?

A. The addition of the new Geographic Information Systems Administrator position results in a $61,000 increase in A&G salaries and wages expense for test year 2007 over recorded 2005.

<u>3. Increased Hours for Existing A&G Positions - $107,000 increase</u>

Q. Why are there increased hours for existing A&G positions?

A. There are increased hours for existing A&G positions primarily because specific positions were vacant for periods of time during 2005.

Q. Which existing A&G positions have increased hours included in the 2007 Budget and what is the impact of the increased hours?

A. The following existing A&G positions have increased hours included in the 2007 Budget with the amount of increase in A&G salaries and wages expense for test year 2007 noted:

a. Computer Systems Specialist - $41,000

b. Computer & Information Services Supervisor - $5,000

c. Utility Plant Clerk - $11,000

d. Capital Budget Analyst and Operations Analyst - $24,000

e. Safety Administrator and Security Specialist - $15,000

f. Clerk Typist I - $10,000

Each of these positions was filled as of January 1, 2007.

Account No. 921 - Office Supplies And Expenses

Q. What is the 2007 test year estimate for account no. 921 - office supplies and expenses?

A. The 2007 test year estimate for account no. 921 is $912,100 for total MECO, comprised of $902,700 for Maui, $0 for Lanai, and $9,400 for Molokai (see MECO-901).

Q. What is included in account no. 921, office supplies and expenses?

A. As the name of this account implies, account no. 921, office supplies and expenses, includes office supplies and expenses of employees engaged in administrative and general activities that are not chargeable to other accounts. It is essentially the non-labor costs related to the administrative function. For example, the costs of postage, printing, stationery, courier services, data processing, and rental of office equipment are charged to this account. In addition, travel expenses, vehicle usage costs, dues, business and technical publication subscriptions, fees, and other general expenditures are recorded in account no. 921.

Q. What adjustments were made to the 2007 Operating Budget in arriving at the 2007 test year estimate?

A. The following adjustments, reflected on page 16 of MECO-901, were made to the 2007 Operating Budget: (1) a normalization adjustment was made to add $11,000 for depreciation study costs; (2) a normalization adjustment was made to subtract

$5,600 for interisland travel costs related to labor union negotiations; and (3) a ratemaking adjustment was made to subtract $8,100 from the 2007 Operating Budget for incentive program costs.

Q. Why was a normalization adjustment made for depreciation study costs?

A. MECO is currently performing a depreciation study based on data as of December 31, 2005, and expects to complete the study in 2007 (see my testimony at MECO T-12 for further discussion of the depreciation study that is currently being performed). Thereafter, MECO expects to perform studies approximately every five years. Because the 2007 Operating Budget did not include costs for the study that is currently being performed, a normalization adjustment is required to add the normalized costs for a depreciation study to the test year estimates. The +$11,000 normalization adjustment represents one-fifth of the estimated $55,000 cost of the study that is currently being performed.

Q. Why was a normalization adjustment made for inter-island travel related to labor union contract negotiations?

A. The Company, together with HECO and HELCO, has historically negotiated labor union agreements with terms longer than one year. The Company will be in contract negotiations on Oahu with the union in 2007 as the current labor contract will expire effective October 31, 2007. The -$5,600 normalization adjustment was made to spread out the estimated inter-island travel costs over a four year period.

Q. Why was a -$8,100 ratemaking adjustment made for incentive program costs?

A. As discussed earlier with respect to account no. 920, Administrative and General salaries, while incentive program costs are necessary and appropriate business expenses, the Company is not requesting cost recovery for such costs at this time,

in order to reduce the number of issues in this proceeding. The Company does not waive, however, its right to seek recovery of these costs in future rate cases.

Q. How does the 2007 test year estimate for account no. 921 compare with prior year amounts?

A. A comparison is shown below based on the amounts shown in MECO-902. The 2007 test year estimate of $912,100 for account no. 921 is $273,200 higher than the $638,900 recorded in 2005.

	($ Thousands) Per MECO-902*
2001 Recorded	$ 847
2002 Recorded	482
2003 Recorded	522
2004 Recorded	607
2005 Recorded	639
2006 Budget	(1,067)
2007 Test Year	912

* A breakdown of these annual totals, before adjustments, by responsibility area code is provided in MECO-WP-101(C).

Q. What are the reasons for the $273,200 increase in account no. 921 costs between recorded 2005 and test year 2007?

A. The reasons for the increase are summarized below:

Description	Amount ($ Thousands)
Higher Information Services Costs	$219
Higher Engineering Department Costs	56
Others	(2)

Total Increase $273

Information Services Costs (+$219,000)

Q. What is the nature of the increase in Information Services costs?

A. The 2007 test year estimate for Information Services costs is $219,000 higher than the actuals for 2005 due to the following: (a) a $101,000 increase for training and related travel costs. The increased training is necessitated by such factors as increasing and constantly changing system security requirements (e.g., to address potential vulnerabilities to new spyware, trojans or other viruses); (b) $38,000 for costs related to implementation of new mapping software. The previous software used was highly inefficient and required continuous updating and debugging. The proposed new mapping software is a server based system that will allow other users to access the mapping database, and is estimated to cost significantly less than other alternatives considered; (c) $40,000 for expanded network communication capability with the 2006 implementation of a DS3 connection, which was driven by continuously increasing use of the network to transmit data and communications; and (d) $25,000 to upgrade the Company's back-up capabilities, necessitated by increased volume of network data required to be backed-up.

Engineering Department Costs (+$56,000)

Q. What is the nature of the increase in the Engineering Department's Land Division costs?

A. The 2007 test year estimate for the Engineering Department's Land Division costs is $56,000 higher than the actuals for 2005 due to: (1) a $50,000 increase in the Energy Delivery on cost loadings on Land Division labor hours charged to A & G accounts due to a decision to start applying the Energy Delivery on cost to Land

Division labor hours beginning in October 2005; and (2) a $5,000 increase in the costs for outside services to process land easements.

Account No. 922 - Administrative Expenses Transferred - Credit

Q. What types of transfers are included in account no. 922, administrative expenses transferred – credit?

A. This account includes two types of transfers:

1. Administrative expenses transferred to construction and to others; and
2. Administrative expenses transferred to the Lanai and Molokai divisions.

Q. What is the Company's 2007 test year estimate for the two types of transfers included in account no. 922?

A. The 2007 test year estimate for account no. 922 - administrative expenses transferred - credit is $1,219,000, as shown in MECO-901, page 16, and includes the following:

1. Administrative expenses transferred to construction and to others - $669,000; and
2. Administrative expenses transferred to the Lanai and Molokai divisions - $550,000.

1. Administrative expenses transferred to construction and to others - $669,000

Q. What does the $669,000 test year 2007 estimate for administrative expenses transferred to construction and to others represent?

A. The estimated amount transferred represents that portion of the total costs charged to account nos. 920 - administrative and general salaries and 921 - office supplies and expenses that relates to plant construction and to other charges such as billings to outside third parties for services rendered (e.g. pole damage repairs), as shown in MECO-907.

Q. How does the Company account for administrative expenses related to non-capital, non-billable work, i.e. administrative expenses in support of operation and maintenance (O&M) expense related work?

A. Under the NARUC USOA, the O&M expense related portion of administrative expenses must be classified as A&G expense. ELLIPSE, generally, applies on-costs to the designated clearing base regardless of the NARUC account number being charged. As a result, ELLIPSE applies administrative expenses on-costs to the various O&M expense accounts (e.g. production, transmission and distribution O&M expense accounts). In order to comply with the NARUC USOA, the administrative expenses on-costs applied by ELLIPSE to the various O&M expense accounts are "reversed" and added back to administrative and general expenses.

Q. Does this reversing entry concept/procedure apply to other on-costs besides administrative expenses?

A. Yes, the concept/procedure is applied to two other on-costs as follows:

1) The O&M expense related portion of employee benefits on-costs applied to various O&M expense accounts is reversed and added back to administrative and general expenses.

2) Under the NARUC USOA, the O&M expense portion of the on-cost for Payroll Taxes (e.g. FICA, FUTA and SUTA) must be classified as Taxes Other Than Income Taxes. Therefore, the Payroll Taxes on-costs applied by ELLIPSE to O&M accounts are reversed and added back to Taxes Other Than Income Taxes.

Q. How are the reversed amounts identified in the Company's workpapers?

A. The reversed amounts can generally be identified in the detailed Pillar Test year 2007 O&M Expense Budget reports provided as workpapers in this docket, i.e. the MECO-WP-101 series of work papers. In these workpapers, the line items labeled "(G/L codes)" include the reversal amounts. With respect to the 2007 budget amounts, the (G/L codes) amounts will equal the reversed amounts. With respect to recorded amounts, the (G/L codes) amount will not necessarily equal the reversed amounts since (G/L codes) include other types of accounting entries required to complete the financial closing process.

Q. Do the total on-cost amounts always net to zero for each of the accounts?

A. No. While the (G/L codes) amount for Test year 2007 will always equal the total on-cost amount reversed for an account, the total on-cost amount for the account will not necessarily net to zero for the following two reasons:

1) Not all of the on-costs applied to an account are subject to being reversed. For example, the on-cost amounts for Energy Delivery are not reversed, except for a small portion as explained in item 2) below.

2) A portion of some on-cost amounts that are mostly not reversed represents other on-costs that <u>are</u> reversed. For example, a portion of the Energy Delivery on-cost amounts represent Corporate Administration Expense, Employee Benefits and Payroll Taxes on-cost amounts, which are reversed. While such reversed amounts are included in the (G/L codes) amount, the amounts are not specifically identified on the work papers as Corporate Administration Expense, Employee Benefits and Payroll Taxes, but rather, are included as part of the Energy Delivery on-cost amount.

Q. Can you please summarize your testimony with respect to the "reversal" of certain on-costs and how the reversal relates to "(GL codes)" amounts?

A. Yes. The Company's core business software system called ELLIPSE generally applies on-costs to the designated clearing base regardless of the NARUC account number being charged. However, for Administrative Expenses, Employee Benefits and Payroll Taxes, the NARUC USOA requires that the O&M expense related portion of the on-cost be charged to a particular account or accounts. Therefore, the ELLIPSE applied on-costs are "reversed" and added back to the NARUC designated account numbers. With respect to Test year 2007, the reversed amounts equal the (GL codes) amounts (e.g. see MECO-WP-101 series of work papers). With respect to recorded year amounts, the (G/L codes) amount will not necessarily equal the reversed amounts since (G/L codes) include other types of accounting entries required to complete the financial closing process.

Q. How was the 2007 test year estimate for Account No. 922 – Administrative Expenses Transferred determined?

A. The amount to transfer was derived using the methodology recommended by KPMG LLP in its administrative transfer study completed in May 1996. A copy of this study was provided in MECO-WP-907 in Docket No. 96-0040.

Q. How does the test year estimate of $669,000 for the portion of total account no. 922 transfers related to administrative expenses transferred to construction and to third parties compare with amounts for earlier years?

A. For comparison purposes, the following table shows the portion of total account no. 922 transfers related to administrative expenses transferred to construction and to third parties, and transferred to the Lanai/Molokai divisions for the years 2001 through test year 2007.

Account no. 922 Amount - Cr. ($ Thousands)	Transfers To Lanai/ Molokai	Transfers to Const/ 3rd parties

2001 Recorded	$ 767	$270	$497
2002 Recorded	901	270	631
2003 Recorded	991	270	721
2004 Recorded	994	270	724
2005 Recorded	913	270	643
2006 Budget	894	270	624
2007 Test Year	1,219	550	669

Q. What are the significant factors causing the administrative cost transferred credit to vary from year to year?

A. The year-to-year differences are driven by the individual factors comprising the calculation of the transfer amount, as noted in the KPMG study. The most significant factor is the amount of costs charged to account nos. 920 and 921 and the proportion of capital tasks to total tasks. As MECO's charges to account nos. 920 and 921 change and as the ratio of MECO's capital work to total work changes, the amount of administrative costs transferred to capital will accordingly change.

2. <u>Administrative expenses transferred to Lanai and Molokai Divisions- $550,000</u>

Q. What does the $550,000 test year 2007 estimate for administrative expenses transferred to Lanai and Molokai divisions represent?

A. The estimated amount represents the portion of total costs charged to Maui Division A&G expense accounts which are not otherwise budgeted for by Lanai or Molokai Divisions or for which a separate allocation is performed.

Q. Why is a portion of Maui Division A&G expenses transferred to Lanai and Molokai Divisions?

A. A portion of Maui Division A&G expenses is transferred to Lanai and Molokai Divisions because the staff on Maui performs most of the administrative type work since MECO does not have sufficient administrative personnel on either Lanai or Molokai. Accordingly, it is appropriate to allocate a portion of these costs to Lanai and Molokai Divisions. The costs allocated to Lanai and Molokai Divisions are charged to accounts no. 9302L and 9302M, respectively.

Q. Is the practice of transferring A&G expenses from Maui Division to Lanai and Molokai Divisions consistent with past practice?

A. Yes. A&G expense transfers from Maui to Lanai and Molokai Divisions were included in MECO's prior rate cases, Docket No. 97-0346, Docket No. 94-0345 and Docket No. 7000. The Commission determined MECO's estimates were reasonable in those cases and utilized the estimates in determining MECO's revenue requirements in those dockets.

Q. What is the basis for the allocation?

A. The basis for this allocation is the number of customers on each island, as shown in MECO-908. This method of allocating A&G expenses to Lanai and Molokai Divisions is consistent with the methodology used in prior MECO rate proceedings.

Q. What costs are included in the calculation of the total to be allocated?

A. As shown in MECO-908 and as noted above, the total costs to be allocated between the three divisions (Maui, Lanai and Molokai) are the total A&G expenses excluding: (1) Employee Benefits, account no. 926, since a portion of employee benefits costs is allocated to Lanai and Molokai Divisions by Ms. Julie Price in MECO T-10; and (2) Maintenance, account no. 932, since the 2007

Operating Budget already includes amounts directly budgeted to the Lanai and Molokai Divisions. Account no. 932 costs are discussed later in this testimony.

Outside Services

Q. What are the accounts and test year amounts for the Outside Services group of accounts?

A. The Outside Services group of accounts, and the associated normalized test year amounts totaling $1,983,100 for test year 2007, are as follows (see MECO-902):

Account No.	Description	Test year 2007 Estimate ($ Thousands)
923.01	Outside Legal Services	$ 20
923.02	Other Outside Services	88
923.03	Services from Assoc. Co.	1,875
		1,983

Q. What is the general nature of Outside Services expenses?

Outside services expenses include amounts paid by the Company for the services of attorneys not chargeable to other accounts (account no. 923.01 - outside legal services); for the services of auditors, consultants, etc. (account no. 923.02 - other outside services); and for the services of Hawaiian Electric Company, Inc. ("HECO") and Hawaiian Electric Industries, Inc. ("HEI") staff (account no. 923.03 - services from associated companies).

Account No. 923.01 - Outside Legal Services

Q. What is the Company's 2007 test year estimate for account no. 923.01 - outside legal services?

A. The 2007 test year estimate for account no. 923.01 - outside legal services is $20,100, as shown in MECO-901, page 17

Q. What types of outside legal services does MECO retain?

A. MECO retains legal services to assist, for example, in matters such as labor relations, PUC filings and regulatory matters, land matters, and disputes involving unpaid receivables and damages to Company property. A breakdown of the types of legal services included in the test year estimate is provided in MECO-909.

Q. How was the test year amount determined?

A. The 2007 test year estimate was developed by budget preparers knowledgeable about the requirements for outside legal services for their respective work areas.

Q. How does the 2007 test year estimate compare with amounts for previous years?

A. The account no. 923.01 amounts for recorded 2001 through test year 2007 are shown below and in MECO-909.

	($ Thousands) Per MECO-902*
2001 Recorded	$ 22
2002 Recorded	47
2003 Recorded	6
2004 Recorded	7
2005 Recorded	7
2006 Budget	27
2007 Test Year	20

* A breakdown of these annual totals, before adjustments, by department is provided in MECO-WP-101(C).

The 2007 test year estimate of $20,100 for account no. 923.01 is $12,600 higher than the $7,500 recorded in 2005 and $2,200 higher than the $17,900 average of actual expenses for 2001 through 2005.

Q. Why is the 2007 test year estimate higher than the 2005 recorded amount?

A. The 2007 test year estimate is $12,600 higher than the 2005 recorded amount due primarily to a $10,000 increase related to grievances and arbitration expenses (ABM activity no. 765).

Q. Please explain the $10,000 increase related to grievances and arbitration expenses.

A. The 2007 test year estimate for grievances and arbitration expenses reflects four outstanding demands for arbitration which may move forward. The actual recorded 2005 expense is low because no cases moved into arbitration in 2005 as cases were either settled or cancelled prior to arbitration.

Account No. 923.02 - Other Outside Services

Q. What is the Company's 2007 test year estimate for account no. 923.02 - other outside services?

A. The 2007 test year estimate for account no. 923.02 - other outside services is $88,100 as shown in MECO-901, page 17, and in MECO-910.

Q. What types of costs are included in account no. 923.02?

A. The test year estimate for account no. 923.02 includes the costs for:

(1) KPMG, LLP (KPMG) for the annual independent audit of financial statements ($28,800); and

(2) KPMG for the annual SOX (Sarbanes-Oxley, which is discussed later) 404 internal control audit ($59,300).

Q. What is the annual independent audit of financial statements?

A. MECO's financial statements are consolidated into the financial statements of its parent company, Hawaiian Electric Company, Inc. ("HECO"). HECO must comply with Securities and Exchange Commission requirements to have its annual financial statements audited and a report issued by its independent auditor

expressing the auditor's opinion as to the reliability of the financial statements. The independent auditor conducts an audit in accordance with auditing standards generally accepted in the United States. Those standards require that they plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

Q. Please explain the costs for the KPMG annual SOX 404 internal control audit.

A. MECO must comply with the requirements under Section 404 of the Sarbanes-Oxley Act of 2002 (SOX 404). Under SOX 404, beginning with the Company's 2004 Annual Report on Form 10-K to the Securities and Exchange Commission, KPMG is required to attest to management's evaluation and certification of HECO's (of which MECO is a part) system of internal controls over financial reporting. As part of its audit, KPMG will need to determine whether there are any significant deficiencies or material weaknesses in the Company's system of internal controls over financial reporting. KPMG's attestation function has required a significant expansion of its auditing procedures and the scope of its opinion.

Q. How does the 2007 test year estimate for account no. 923.02 compare with amounts for previous years?

A. The actual expenses for account no. 923.02 for 2001 through 2005 and the 2007 test year estimate are as follows (see MECO-902):

	($ Thousands) Per MECO-902
2001 Recorded	$ 25

2002 Recorded	27
2003 Recorded	24
2004 Recorded	4
2005 Recorded	28
2006 Budget	0
2007 Test Year	88

Q. What are the reasons for the increase in account no. 923.02 costs between recorded 2005 and test year 2007?

A. The 2007 test year estimate of $88,100 for account no. 923.02 is $60,200 higher than the $27,900 recorded for 2005. The increase is primarily due to the fact that most of the 2005 costs incurred for KPMG services were erroneously recorded in account no 921.

Q. What would the 2005 recorded costs have been if the KPMG costs were properly recorded in account no. 923.02?

A. If the 2005 costs incurred for KPMG services were correctly recorded in account no. 923.02, the 2005 amount for account 923.02 would have been $127,300, which is $39,200 higher than the 2007 test year estimate.

Q. Why is the 2007 test year estimate reasonable?

A. The 2007 test year estimate is reasonable because it is based on the escalated actual costs for the most recently completed annual financial statement and SOX 404 audits (i.e., the 2005 audits) as shown on MECO-WP-902.

<u>Account No. 923.03 - Services From Associated Companies</u>

Q. What is the Company's 2007 test year estimate for account no. 923.03 - services from associated companies?

A. The 2007 test year estimate for account no. 923.03 - services from associated companies is $1,874,900 for total MECO, comprised of $1,874,900 for Maui, $0 for Lanai, and $0 for Molokai, as shown in MECO-901, pages 17, 2, 7 and 12, respectively. This estimate excludes Performance Incentive Compensation, lobbying costs, and HEIRS Administrative expenses relating to HEI billings. Although such costs are reasonable business expenses that should be recoverable from ratepayers, MECO excluded these costs from the 2007 test year estimates in order to reduce the number of issues in this proceeding. However, MECO reserves the right to seek recovery of these costs in future rate cases.

Q. What types of costs are included in the 2007 test year estimate?

A. The 2007 test year estimate includes estimated billings from HEI and HECO.

Q. What portion of the test year estimate for account 923.03 of $1,874,900 represents billings from HEI and from HECO?

A. The breakdown of costs for this account is as follows:

Charges from HEI	$ 472,100
Charges from HECO	1,402,800
	$1,874,900

A summary of the total HECO and HEI billing amounts by ABM activity is shown in MECO-911. Further detail for HEI billing amounts is shown in MECO-912.

Q. What services are provided by HEI to MECO?

A. HEI provides MECO with a variety of services, including financial accounting and reporting, administrative, investor relations and stock transfer services. Detailed descriptions of the services performed by HEI on MECO's behalf are identified in the service agreement between HEI and MECO, which is provided in

MECO-WP-903. The service agreement also provides the basis used by HEI to allocate (when direct charging is not possible or practical) billing amounts to its various subsidiaries.

Q. How were the estimated billings from HEI to MECO determined for the 2007 test year?

A. The 2007 test year estimate is based in part upon the 2005 recorded charges, increased by general inflation factors of 3.1% and 2.5% applied to 2006 and 2007, respectively. The charges by the various types of services are provided in MECO-912 and supporting detailed work activities and calculations of cost estimates are provided in MECO-WP-904.

Q. What is the basis for the 2005 recorded charges?

A. Recorded 2005 labor charges are based on a positive time reporting billing system that HEI implemented effective January 1, 1993.

Q. Why is the 2007 test year amount of $472,100, after adjustments to remove all EICP, LTIP, lobbying costs and HEIRS Administrative expenses from HEI billings to MECO, reasonable for purposes of this docket?

A. As shown in MECO-912, the 2007 test year estimate of $472,100 for HEI billings is $36,200, or 8%, higher than the 2005 actual amount after adjustments to exclude incentive compensation and other expenses. The increase is due primarily to a $26,000 increase for tax support, together with increases due to general cost inflation with respect to all activities. The $26,000 increase for tax support, in turn, is due primarily to increased costs for outside assistance with IRS and State of Hawaii income tax examinations together with normalized costs for new tax provision software and related annual updates. Also, the 2007 test year amount is reasonable because it is based on the 2005 recorded billing amount, which

resulted from the use of a time reporting system that has been used as the basis for determining estimates in prior rate proceedings, including the estimates used in MECO's last rate case, Docket No. 97-0346.

Q. How does MECO account for services it receives from HECO?

A. HECO services that can be "functionally categorized" are charged to the appropriate function's costs. For instance, the cost of production-maintenance crews from HECO used by MECO during certain generating unit overhaul periods is considered a non-labor production-maintenance cost. Another example is costs associated with the HECO operating employees who assist MECO in construction activities, which costs are included as part of the cost of the capital projects constructed using HECO employees. HECO services that are administrative in nature or that cannot be "functionally categorized" are charged to account no. 923.03.

Q. What types of services provided by HECO to MECO are recorded in account no. 923.03?

A. HECO provides MECO with various types of management and administrative services. These include management services and computer services, and assistance in the areas of accounting and financial services, government regulation, purchasing, employee compensation & benefits, pricing, tariff interpretation, and regulatory services.

Q. Do the estimated billings from HECO include any performance incentive compensation amounts?

A. No, the estimated billings from HECO contain no performance incentive compensation amounts.

Q. What data has the Company provided to support the total estimated billing amount from HECO to MECO of $1,402,800 for test year 2007?

A. MECO-911 includes a summary by ABM activity of the total HECO and HEI billing amounts.

Q. How does the 2007 test year estimate for HECO charges under account no. 923.03 - services from associated companies compare with amounts for prior years?

A. A comparison is shown below, based on the amounts shown in MECO-911, excluding HEI charges, which were expensed under account no. 923.03:

($ Thousands)

	Per MECO-902*	Less HEI	Adj. Total
2001 Recorded	$1,461	364	$1,097
2002 Recorded	1,472	366	1,106
2003 Recorded	1,752	519	1,233
2004 Recorded	1,406	567	839
2005 Recorded	1,565	595	970
2006 Budget	1,906	562	1,344
2007 Test Year	1,875	472	1,403

* A breakdown of these annual totals, before adjustments, by responsibility area code is provided in MECO-WP-101(C).

Q. What are the reasons for the increase in HECO charges in account no. 923.03 between recorded 2005 and test year 2007?

A. The 2007 test year estimate of $1,403,000 is $433,000 higher than the $970,000 recorded for 2005. The primary reasons for the increase, by type of activity, are as follows:

(1) Improve business processes - +$123,000,

(2) Manage cash - +81,000,

(3) Process invoices & other payments – +$67,000,

(4) Maintain General Ledger – +$62,000,

(5) Coordinate, conduct & assist with audit – internal - + $50,000

Improve Business Processes + $123,000

Q. What is the reason for the increase with respect to the improve business process activity?

A. The $123,000 increase for the improve business process activity reflects an estimated $135,000 to migrate the Ellipse system from a mainframe platform to a UNIX platform. With plans to operate the Customer Information System (CIS) and proposed Human Resources (HR) Suite systems on non-mainframe platforms, the UNIX migration is necessary for Ellipse because the cost to operate the mainframe for only the Ellipse application would be prohibitive.

Manage Cash + $81,000

Q. What is the reason for the increase with respect to the manage cash activity?

A. The $81,000 increase for the manage cash activity is due primarily to: (a) $48,000 of credits recorded in 2005 for bank fees compared to none in the 2007 Operating Budget; (b) a $15,000 increase for commercial paper rating fees due to higher projected short term borrowing levels; and (c) a $13,000 increase for line of credit fees due to higher projected short term borrowing levels.

Process Invoices & Other Payments + $67,000

Q. What is the reason for the increase with respect to the process invoices and other payments activity?

A. The $67,000 increase for the process invoices and other payments activity is due primarily to: (a) a $35,000 increase in HECO Accounts Payable charges for

processing invoices and generating accounts payable checks; and (b) a $29,000 increase in HECO Purchasing charges for clerical support to reconcile invoice discrepancies.

Maintain General Ledger + $62,000

Q. What is the reason for the increase with respect to the maintain general ledger activity?

A. The $62,000 increase for the maintain general ledger activity is due primarily to increased costs for Ellipse processing charges from HECO's Information Technology & Services department.

Coordinate, Conduct & Assist with Audit – Internal + $50,000

What is the reason for the increase with respect to the coordinate, conduct and assist with audit – internal activity?

A. The $50,000 increase for the coordinate, conduct and assist with audit – internal activity is due primarily to unusually low expenses recorded for 2005. During 2005, HECO's Internal Audit staff was assigned to non-MECO internal audit work such as SOX 404 compliance work and conducting internal audits for one of the other utilities.

Insurance

Q. Moving on to the insurance group of accounts, what are the accounts and test year 2007 amounts for insurance?

A. As shown in MECO-901, page 18, the total test year 2007 estimate for insurance of $2,061,500 is comprised of the following:

Acct. No.	Description	Test Year 2007 Estimate
924	Property Insurance	$ 750,300
925	Injuries and Damages	1,311,200

Total	$2,061,500

Q. How do the test year estimates compare to recorded 2005 costs?

A. The 2007 test year estimate is $56,400 lower than the $2,117,900 recorded for 2005. The 2007 test year estimate includes higher costs for insurance premiums ($219,800 increase), workers compensation claims costs ($379,200 increase) and other increases which are described in more detail below. These projected increases are offset by a $750,000 reserve accrual for the damage to generating unit Maalaea 13 included in the 2005 recorded costs for which there is no comparable reserve accrual in the 2007 test year estimate.

Q. Why are account nos. 924, 925.01 and 925.02 grouped together in your testimony, and what are the differences among these accounts?

A. The insurance group of accounts represents expenses that are necessary to prevent or control the financial impact of accidental losses on the Company. Account no. 924, "Property Insurance", includes the cost of insurance for utility property owned by the Company and claims payments or reserves for damages to this property not covered by insurance. Account no. 925, "Injuries & Damages" has two components:

1) Employees (account no. 925.01) - this account includes the cost of insurance to protect the utility against injuries to employees as well as claims payments or reserves for costs not covered by insurance. This component also includes the cost of safety and accident prevention programs.

2) Public (account no. 925.02) - this account includes the cost of insurance and claims payments or reserves to protect the company against injuries to, and damage claims of, members of the public.

Q. What is the general nature of the expenses included in these accounts?

A. As indicated below, the expenses represent labor and non-labor costs. Non-labor costs, which account for most of the expenses (approximately 88% of the test year 2007 expenses), include insurance premiums, absorbed losses, safety programs designed to control losses, and other costs.

Total for Account Nos. 924 & 925:	Test Year 2007 Estimate
Labor	$ 253,400
Non-Labor	1,808,100
Total Accounts 924 and 925	$2,061,500
Non-Labor Expenses for Account Nos. 924 and 925:	
Premiums	$1,234,200
Absorbed losses and other non-labor	573,900
Total Non-Labor	$1,808,100

Q. What are the premium-related expenses that are included in account nos. 924.00, 925.01 and 925.02?

A. Premium-related expenses are estimated at $1,234,200 (approximately 60% of the total estimated test year expenses for the insurance group of accounts). These expenses include insurance premiums, premium taxes, and insurance broker fees. The total premium-related expenses by account, for 2001 through 2007, are shown in MECO-913, page 2.

Q. What are the absorbed losses and other non-labor costs that are included in account nos. 924.00, 925.01, and 925.02?

A. The totals of these non-labor costs, by account no., for 2001 through 2007, are shown in MECO-913, page 3. Absorbed losses and other non-labor costs (primarily safety program costs) are costs borne by the Company (i.e. costs not reimbursed by insurance). These non-labor costs are estimated at $573,900 for test

year 2007 (approximately 28% of the total costs for the insurance group of accounts). Absorbed losses result from many types of events, including work-related injuries to Company employees, injuries and damages to the public, and property losses that are subject to insurance deductibles or are self-insured. (Deductibles are MECO's portion of insured losses and self-insured amounts are MECO's portion of losses payable before any excess level of insurance applies.)

Q. What are the safety program expenses included in account no. 925.01?

A. These costs include all tasks associated with employee safety, fire safety and public safety. The costs of safety materials such as personal protective equipment and outside services such as laboratory analysis are also included. Non-labor safety program costs are estimated at $114,300 for test year 2007, as shown in MECO-913, page 3.

Q. What are the Labor expenses included in account nos. 924 and 925?

A. These are costs to administer the safety program and insurance program, and for internal coordination of claims processing. These expenses total $253,400 for test year 2007 (approximately 12% of the total estimated costs for the insurance group of accounts) as shown in MECO-913, page 4.

Company Policy With Respect to Insurance Coverage

Q. What is the Company's policy with respect to purchasing insurance coverage?

A. The Company's policy is to minimize the combined cost of insurance and absorbed losses. The Company purchases insurance as protection against catastrophic losses when it is economically feasible to do so. MECO does not insure against the smaller, on-going and relatively predictable losses that are an inevitable consequence of doing business in the electric utility industry. These less significant losses are paid directly by the Company in the form of an insurance

policy deductible or a formal self-insured program. It is MECO's policy to do everything economically feasible to contain the on-going types of losses and to control conditions which might cause catastrophic losses.

MECO Covered In HEI Policies

Q. Is MECO covered in policies purchased by Hawaiian Electric Industries, Inc. ("HEI")?

A. Yes. MECO's coverage is part of a consolidated HEI program.

Q. How does MECO get charged for its share of the HEI premium-related expenses?

A. For the most part, the insurance companies provide breakdowns of the total premium by company. MECO's share is the portion of the total premium that the insurer attributes to the risks at MECO. From this information, it is a simple matter to charge MECO its appropriate share of the premium. When a premium is subject to adjustment based on actual loss experience, the full premium adjustment for MECO losses is charged or credited to MECO.

When insurance companies do not provide a breakdown of the total premium, the Company's insurance broker provides the breakdown based on the underwriting statistics submitted to insurers. (A measurable statistic such as payroll, which reflects the Company's exposure to loss, is used as the basis for the broker's allocation.)

Determining Insurance Requirements

Q. How does the Company determine insurance requirements for a given category of insurance?

A. First, the Company identifies how it could experience a catastrophic loss. The types of losses which could occur are researched and an assessment is made with respect to the probability of each type of loss. In particular, MECO's loss history

(losses which have already occurred) is examined to assess the probable level of future losses for the given category of insurance. Our insurance broker assists in reviewing losses and providing its evaluation as part of our review process.

In some cases, after evaluating the financial impact of the exposure to loss, the Company decides that the potential is small enough that insurance is not required. However, even when losses are not financed with insurance, the exposure area is still subjected to loss control (e.g. safety precautions) to reduce or eliminate losses.

Once probable levels of losses are estimated, the Company's broker, on MECO's behalf, requests bids for insurance having various levels of coverage. Alternatives are compared with respect to the total costs of projected losses within various deductible levels, plus associated premiums. The Company then selects the insurance proposal that gives the best overall protection in light of the cost of probable losses and premium. MECO's broker and its industry experts give the Company very valuable advice in this process and MECO relies heavily on their expertise.

Q. How was the test year 2007 estimate for insurance premiums determined?

A. The Company expects that it will need all of the same types of coverage in 2007 that it had in 2006. The cost of this insurance typically changes annually.

Projected insurance premium expenses (shown in MECO-913, page 2) for the 2007 Operating Budget were estimated in April 2006, based on the known cost of the annual policies purchased in 2005 and early 2006. The test year 2007 estimate has been further adjusted based on renewal experience through September 2006. Policy period purchases were adjusted to a 2007 calendar year basis.

Where applicable, the current costs were adjusted for three factors: 1) future insurance market pricing, 2) any insurance coverage changes, and 3) any risk exposure changes (changes in the number of things insured or in levels of risk).

Account No. 924 – Property Insurance

Q. What is the Company's normalized estimate of premium-related expenses and absorbed losses to be charged to account no. 924, Property Insurance, for the 2007 test year?

A. The Company's test year 2007 normalized estimate for account no. 924.00 totals $750,300, as shown in MECO-913, page 1. The tables below break down the total expense into labor and non-labor costs, and the non-labor expense into premiums and absorbed losses.

	Test Year 2007 Estimate
Property:	
Labor	$ 0
Non-Labor	750,300
Total Account 924	$ 750,300
Breakdown of Non-labor Expense:	
Premiums	$ 713,600
Absorbed Losses	36,700
Total Account 924 Non-Labor	$ 750,300

(See MECO-913, pages 2 and 3 for breakdown of non-labor expenses.)

Q. How do the estimates for test year 2007 compare with previous year amounts?

A. These costs can change significantly from year to year. The changes in annual premium expense are caused by several factors, including the market price for

insurance, loss history, inflation, and increases in the amount of property insured. MECO experienced a significant premium increase during the hardening property market at renewal on September 1, 2001 but when the September 11, 2001 ("9/11") losses occurred in New York City eleven days later, the property market hardened further. The September 2002 renewal encountered significant increases again and in 2003 the market stabilized. As reflected in MECO-913, page 2, premiums increased by 73% in 2002 and 40% in 2003. Premiums then decreased by 8% in 2004 and 1% in 2005. With the stabilization in the market, a 1.7% increase was projected for September 1, 2006 renewals. Unfortunately, Hurricane Katrina and other losses affected the insurance market after the 9/1/05 renewal (especially for locations with hurricane exposures like MECO has) and the market hardened considerably.

With respect to absorbed property/ boiler & machinery losses, the total costs fluctuated significantly from year to year. These ranged from a low of $13,000 in 2003 to a high of $772,000 in 2005 (see MECO-913, page 3). These swings in costs are typical of property damage claims, which usually involve low-frequency, high-dollar losses.

Q. What types of insurance costs are included in account no. 924?

A. There are three main types of insurance coverage costs charged to account no. 924:

1) property coverage for perils such as fire, wind, quake and flood,
2) boiler & machinery coverage for mechanical breakdown and electrical arcing, and
3) freight insurance.

The property/boiler & machinery coverages are on the same policy and cover scheduled locations such as each power plant and substation. The freight insurance is for property in transit (such as a turbine shipped for repair) and is under a separate policy.

Q. Why does the Company purchase property insurance?

A. The Company buys property insurance to repair or replace physical assets which have been damaged by insurable events. MECO has various types of utility property that might be damaged or destroyed. Real property such as power plants, and personal property such as computer equipment, computer software, and mobile equipment are subject to damage from various perils.

MECO's property insurance coverage is quite broad and covers losses because of fire, vandalism, riot, sprinkler leakage, lightning, wind, hail, explosion, smoke, liquid damage, vehicle impact, aircraft impact, sonic boom, collapse, flood, and earthquake.

Q. How is the property insurance premium priced?

A. The Company provides total replacement values by scheduled location to the underwriters. Underwriters assess the risk exposure and determine the property insurance costs.

Q. How was the estimated property insurance premium for test year 2007 calculated?

A. The test year 2007 estimate is based on maintaining the same types of coverage in place at the time the 2007 Operating Budget was prepared with further adjustment to the 2007 estimates after the September 2006 renewal information became available. Projected expenses (shown in MECO-913, page 2) for premiums were originally based on the known cost of the annual policy purchased in 2005, but were subsequently adjusted for 2006 purchases. Policy period purchases were

adjusted to a 2007 calendar year basis. The test year 2007 estimate of $523,000 is based on projected insurance market conditions and similar replacement costs of property owned.

Q. What is the deductible for property insurance?

A. The deductible is $1 million per occurrence for catastrophic perils such as earthquake and flood (hurricane wind deductible is two percent of location value with a minimum of $1 million per location). The deductible is $750,000 for other perils such as fire at generating plant locations and $100,000 at non-generating locations.

Q. What types of property are not insured under this policy?

A. Examples of uninsured property are transmission and distribution ("T&D") lines and business interruption exposures. With MECO's hurricane wind exposures, insurance underwriters do not offer T&D property coverage or if coverage is made available, reasonable pricing is not offered. Similarly, because MECO is not connected to a grid as mainland utilities are, business interruption coverage is not available to MECO based on the lack of replacement power to mitigate the interruption.

Boiler and Machinery Insurance

Q. Why does MECO buy boiler and machinery insurance?

A. Boiler and machinery insurance pays for replacement or repairs related to steam explosions or machinery breakdowns. The boiler and machinery policy covers losses to boilers, pressure vessels (fired and unfired), electrical equipment (such as generators, transformers, motors, and switch gear), and mechanical power equipment (such as turbines, pumps, compressors, and fans). The boiler and machinery coverage is insured with the same insurer as the property coverage to

avoid potential gaps in coverage where it is difficult to tell whether a claim should be under the property coverage or under the boiler and machinery coverage.

Q. How is the boiler and machinery insurance premium priced?

A. The underwriters base their charges on their appraisal of the risk of loss for each type of equipment and the possible consequences of an insured accident.

Q. How was the estimated boiler and machinery insurance premium for test year 2007 calculated?

A. The 2007 test year estimate is based on maintaining the same coverage in place at the most recent renewal in September 2006. The 2007 cost is expected to be $190,000 (see MECO-913, page 2). The test year estimate is 21% more than the $157,200 recorded for 2005, due primarily to the hardening of insurance markets following Hurricane Katrina, which was described previously.

Q. What is the deductible for boiler and machinery insurance?

A. The deductible is $750,000 per occurrence.

<u>Absorbed Property and Boiler/Machinery Losses</u>

Q. How was the cost for absorbed property and boiler and machinery losses estimated?

A. Absorbed losses related to the Company's insured property insurance program are difficult to estimate. The frequency of this type of loss is relatively low, making such losses very difficult to predict. On the other hand, the value of the loss can be quite substantial.

Besides absorbed losses related to the Company's insured property insurance program, MECO regularly experiences damage by third parties to its uninsured transmission and distribution property (e.g. poles damaged/destroyed in

automobile accidents). A portion of these losses are unrecoverable and must be absorbed.

As shown in MECO-913, page 3, total absorbed losses in account no. 924.00 for property/boiler and machinery ranged from a high of $78,000 in 2001 to a low of $13,000 in 2003. In developing the 2007 test year estimate of $36,700, the Company used a 60-month average of damage claims receivable write-offs (net of recoveries) as a proxy for these types of losses.

Freight Insurance

Q. Why does the Company buy "freight" insurance?

A. Freight, or cargo, insurance is purchased to cover the cost of loss or damage to property being transported from one location to another. Because of the various modes of transportation and the limited liability assumed by carriers, it is often less expensive and safer to buy our own freight insurance. This way, the freight insurance coverage is in place and will reimburse MECO for the costs of loss or damage to MECO's property.

Q. How are the premiums for freight insurance determined?

A. The freight insurance premium is calculated by multiplying the declared value of the shipment times the applicable premium rate.

There are actually two types of freight insurance: "ocean freight" and "inland freight". If freight is transported by land only (such as between a plant and a repair facility), the inland freight rate applies. The ocean cargo rate applies if freight is shipped via ocean and land or ocean and air. A lower ocean freight rate applies when oil cargo is shipped.

Q. What is the 2007 test year estimate for freight insurance premium?

A. The projected cost for the test year 2007 is $600, as shown in MECO-913, page 2.

Account 925.01 – Injuries and Damages – Employees

Q. What is the Company's test year 2007 estimate of labor and non-labor expenses charged to account no. 925.01, Injuries and Damages – Employees, including the non-labor costs of premium, absorbed claims, the safety program and other expenses?

A. The test year 2007 estimate for account no. 925.01 is $761,900 (see MECO-913, page 1), as follows:

	Test Year 2007 Estimate
Labor	$200,300
Non-Labor	561,600
Total Account 925.01	$761,900

Q. How do the estimates for the 2007 test year compare with previous year amounts?

A. These costs can fluctuate considerably each year. Costs increased 39% in 2002, decreased 64% in 2003, decreased 35% in 2004, and increased 11% in 2005 (see MECO-913, page 1). The $761,900 estimate for test year 2007 is $462,200 more than the $299,700 recorded for 2005. The increase is due primarily to a $261,400 decrease in reserve accrual (i.e., a $261,400 credit recorded for 2005 vs. none for the 2007 test year estimate).

Q. What are the Labor expenses included in account no. 925.01?

A. These costs represent direct labor and related on-costs for the Safety Program, insurance program and internal coordination of claims processing. The safety program accounts for $163,900 and workers compensation for $36,400 of the total $200,300 of labor costs. (See MECO-913, page 4.)

Q. What are the amounts for the non-labor components of account no. 925.01?

A. The amounts for the various components are as follows:

1 Non-Labor includes:

2 Premium:

3 Excess Workers' Compensation Premium	$ 67,000
4 State W/C Special Fund Assessments	15,200
5 USL&H Bond	1,300
6 Absorbed Losses	363,800
7 Safety Program	114,300
8 Total Account No. 925.01 Non-labor (before G/L credit)	$561,600

9 (See MECO-913, pages 2 and 3.)

10 Q. What are the premium expenses for account no. 925.01?

11 A. The insurance premium expenses included account no. 925.01 are:
12 Excess Workers' Compensation insurance premium,
13 State Worker's Compensation fund assessments, and
14 United States Longshore and Harbor Workers (USL&H) bond.
15 The test year 2007 premium expense estimate is conservative because it does not
16 reflect any significant payroll increases, and no change is contemplated in the
17 current program maintained by the Company. The test year 2007 premiums are
18 estimated at $83,500 (see MECO-913, page 2). Similar to the impact on property
19 premiums, workers compensation premiums have increased significantly as a
20 result of the 9/11 losses to insurance underwriters.

21 Excess Workers' Compensation

22 Q. What is meant by "excess" workers' compensation insurance?

23 A. In order to limit our financial exposure to catastrophic losses, the Company
24 purchases "excess" insurance above the first $1 million of workers' compensation

claims. In this case, the insurance industry term "excess" simply means "above". It does not mean "more than necessary".

Q. How is the premium for excess workers' compensation insurance derived?

A. The Company's insurance carrier charges a fixed premium for this coverage, based on such factors as payroll, job classifications and accident prevention measures.

Q. How was the estimated excess workers' compensation premium for test year 2007 calculated?

A. The estimated premium for test year 2007 for excess workers' compensation was based on the known cost of similar coverage in 2005. Subsequently, based on MECO's insurance broker's projections and the recent 2006 renewals, the Company estimates a premium rate increase of 12% for test year 2007 compared to 2005 recorded expenses (included in the Operating Budget are net premiums, broker's fees, commissions, and other expenses). The resulting test year 2007 estimate for excess workers' compensation premium should be $49,900, which is $17,100 lower than the current test year estimate of $67,000.

Q. Is there an error in the current test year estimate of premium expenses charged to account no. 925.01?

A. Yes. The 2007 Operating Budget amount for excess workers' compensation insurance erroneously includes $17,100 with respect to an earlier estimate for the state special fund (discussed below). This double counted amount will be corrected at MECO's next opportunity.

<u>State Workers' Compensation Special Fund</u>

Q. What are the state workers' compensation special fund assessments?

A. HEI and its subsidiaries, including MECO, have the State of Hawaii's approval to be self-insured up to $1 million for workers' compensation. This means that

claims under $1 million are not insured. (The cost of these claims is charged to account no. 925.01, as discussed in the preceding section). MECO purchases workers' compensation insurance for loss occurrences over $1 million to provide protection for catastrophic losses (such as a bus load of workers injured in one accident).

Under the Hawaii State workers' compensation program, a special compensation fund is established and maintained to pay for certain benefits not provided through the employer's workers' compensation benefits. This fund is maintained by an annual levy, the "special fund assessment," against insurers and self-insured employers.

Q. How is the State workers' compensation special fund assessment derived?

A. The State has a formula based on the "average annual compensation" paid out for injuries and damages to employees over the two consecutive calendar years immediately preceding the year for which the charge is assessed. The formula relates to total compensation paid by all employers during this period as well as the compensation paid by all insurance carriers on behalf of employers. For each calendar year, the Director of Commerce and Consumer Affairs determines the amount of the charge to be paid by MECO and notifies the Company during the following year. Although the State approval for self-insuring is for all of the HEI entities, as mentioned above, the special fund assessment is calculated for each company based on each company's loss experience.

Q. What is the test year 2007 estimate for the state workers' compensation special fund premium?

A. The estimated workers' compensation special fund assessment for test year 2007 is $15,200 as shown in MECO-913, page 2.

1 USL&H

2 Q. What is the USL&H bond?

3 A. HECO, on a consolidated basis, has the Federal Government's approval to be self-
4 insured up to $1 million for USL&H exposures. USL&H is a federal act
5 (sometimes referred to as the Longshore Harbor Worker's Compensation Act -
6 LHWCA) designed to provide compensation to an employee if an injury or death
7 occurs upon navigable waters of the US - including any adjoining pier, wharf, dry
8 dock, terminal, building way, marine railway or other adjoining area customarily
9 used by an employer in loading, unloading, repairing, dismantling or building a
10 vessel. MECO has incidental exposure for claims when employees are working
11 around docking facilities.

12 Q. How was the estimated USL&H bond premium for test year 2007 calculated?

13 A. The estimated USL&H bond premium for test year 2007 is $1,300, based on
14 broker projections.

15 Absorbed Losses

16 Q. What are the "absorbed losses" for account no. 925.01?

17 A. Under the authority of the State Labor Department, the Company operates a "self-
18 insured" workers compensation program, whereby MECO pays the costs related
19 to injured workers for losses up to $1 million per occurrence (for injuries) or $1
20 million per person (for disease). MECO does this because it is more economical
21 to self-insure such losses and avoid paying for insurance company profit and
22 overhead.

23 Under MECO's self-insured program, the Company is responsible for
24 paying monetary awards for degrees of disability, as well as wage benefits. In
25 addition, medical costs are a substantial portion of workers' compensation claims,

and the Company sometimes incurs legal expenses related to settling claims. Absorbed workers' compensation amounts for 2001-2007 are shown in MECO-913, page 3. The test year 2007 estimate is $363,800.

Q. How does the Company record workers' compensation losses?

A. The company accrues the costs of workers' compensation awards and related expenses (e.g. medical costs and legal fees) at the time an accident/incident is reported. The best estimate of the ultimate amount of the loss is recorded in (matched to) the period in which the accident/incident is reported, rather than the year of settlement or payment. Claims settlements can occur in years subsequent to the one in which the accident occurs, and the payment of related costs often continues in subsequent years as well.

Q. What specific actions are required to accomplish the cost accrual?

A. The Company has established a reserve liability for workers' compensation claims, representing the ultimate estimated awards and related costs to be paid (absorbed) by the Company in the future for all known accidents. The reserve liability balance is evaluated and adjusted for significant changes at the end of each month and updated for all claims at the end of each quarter. Any required increase in the reserve balance adds to the workers' compensation recorded expenses, and any required decrease in the reserve balance reduces workers' compensation recorded expenses except to the degree they are offset by actual payments made. As actual payments are made, reserve amounts are reduced in like amounts and previously recorded expenses remain unchanged.

Q. How does the test year 2007 estimate for workers' compensation claims compare with prior year amounts?

A. A comparison of the non-labor costs for workers' compensation claims from 2001 through test year 2007 is shown in MECO-913, page 3.

The 2007 test year estimate of $363,800 compares to a low of -$60,000 in 2004 and a high of $866,600 in 2002. Historically, the costs of workers' compensation claims have fluctuated widely from year to year.

Q. Is estimating the costs of workers' compensation claims relatively straightforward?

A. No. Predicting workers' compensation claims is somewhat difficult since in any given year one severe claim can distort the annual expense. In other years, it may take many small claims to produce the same effect as one severe claim.

Q. How was the workers' compensation cost estimate for test year 2007 derived?

A. The cost estimate for workers' compensation claims was based on an analysis of historical experience.

Safety Program

Q. What are the safety program expenses in account no. 925.01?

A. Between 2001 and 2005, recorded safety program costs (including costs with respect to the prevention of injuries and damages to both employees and the public) have fluctuated from a high of $104,000 in 2005 to a low of $73,000 in 2003. The 2007 test year estimate for safety program costs is $114,300 (non-labor only) - see MECO-913, page 3.

Q. What do safety program costs include?

A. The primary cost elements are materials, transportation and outside services. Activities of the Safety Division include all elements of a program which promote a safe work environment and safe work practices as mandated by the OSHA, HiOSH, State Public Utilities Commission, Maui Fire Dept., DOT and State

Department of Health. Safety related activities help to control both the frequency and size of workers' compensation and general liability claims as well as aid electrical system reliability. Examples of Safety Division activities include conducting safety surveys, providing safety equipment, and servicing safety equipment. In addition to the Safety Division, the Company's operating departments incur safety-related costs, primarily for the purchase of safety materials such as hearing protection, fire resistive clothing, electrical insulated high and low voltage rubber protective gloves, sleeves, hot sticks and line protective covers. Safety-related costs incurred by the operating departments also include the HiOSH required di-electric (insulated) testing of the rubber protective equipment, hot sticks, etc.

Further, MECO's Safety Division provides electrical safety education and related inspections for outside "Emergency Responders" and customers such as contracting firms, schools and Federal agencies.

Q. How are the costs for the safety program calculated?

A. The Safety program costs are incurred primarily by the Company's Safety Division. These costs are estimated based on historical costs, adjusted as necessary to meet changing requirements such as new regulations and to satisfy business and social needs to ensure that deaths and serious disabling injuries are not incurred by MECO employees and customers.

<u>Account 925.02 – Injuries and Damages – Public</u>

Q. What components are included in the Company's test year 2007 estimates with respect to account no. 925.02, Injuries and Damages – Public?

A. The Company's estimate of account no. 925.02 expenses, which total $549,300 (see MECO-913, page 1), includes $53,100 of labor and $496,200 of non-labor expenses. Non-labor expenses include premiums and absorbed losses, as follows:

	Test Year 2007 Estimate
Premiums	$ 437,100
Absorbed losses	59,100
Account No. 925.02 Non-labor (before G/L credits)	$ 496,200

(See MECO-913, pages 2 and 3.)

Q. What causes the annual changes in these costs?

A. Changes in the cost of general liability insurance have a significant impact on the costs for account no. 925.02 (see MECO-913, pages 1 and 2). Changes in the annual cost of general liability insurance are caused primarily by insurance market conditions/prices. Absorbed losses can also have a significant impact since MECO retains the first $1 million of insured general liability losses. Changes in the limits and the deductibles/retentions selected by the Company can also cause cost variations.

Q. Why does the Company buy liability insurance?

A. The Company buys liability insurance because of the difficulty in predicting the size and frequency of the related types of losses. Exposure to liability loss is the most difficult of risks to assess. The amounts of losses depend on the circumstances of an event, the nature and severity of the injury or damage, the degree of any negligence, the applicable laws, the decisions of judges or juries, and even general societal trends.

Liability losses can arise from many things, such as the ownership and use of property, conduct and activities of employees, conduct and actions of

subcontractors, lease of aircraft, contractual assumption of liability and the ownership of vehicles.

Liability claims are not commonly self-insured due to the difficulty in predicting such claims. A review of the past several years of loss history guides both MECO and insurance company underwriters in identifying smaller, more frequent losses. This "predictable" level is an appropriate amount for a deductible and the Company adapts the deductible to the particular type of exposure/insurance. However, insurance is necessary to transfer the risk of unpredictable, catastrophic losses.

Q. How are liability premiums determined?

A. Underwriters base general liability rates for electric utilities on various factors such as KWH sales by type, revenue, employee count, geographical location and claims history. Executive risk is rated by underwriters based on corporate governance, losses, business activities, financial performance and management skills.

Q. How were the estimated liability premiums for test year 2007 calculated?

A. The estimates for test year 2007 were developed as follows:

1) General Liability – The 2007 premium is based on the actual cost for the June 1, 2006-2007 policy period, when two layers of coverage were purchased to achieve adequate limits. These costs were adjusted for future periods based on broker-provided projections. The 2007 test year estimate reflects a combination of two policy periods: June 1, 2006-2007 and June 1, 2007-2008. When preparing the test year 2007 Operating Budget after the June 2006 renewals, premiums were projected to be $334,000. See MECO-913, page 2.

2) Executive Risk – This cost consists of premiums for several exposures including directors and officers ("D&O") liability and fiduciary. The D&O premium is the largest of these items at $51,800 for test year 2007, and fiduciary is at $32,700 (see MECO-913, page 2). The 2007 test year estimate is based on the actual expense incurred for each exposure area at the February 1, 2006 policy purchase, escalated for future purchases in February 2007.

3) Other Liability Insurance – The test year 2007 estimate for the costs of other liability premiums (crime insurance and miscellaneous bonds) is estimated to total $18,600 for test year 2007. These costs are based on the insurance broker's projections for market pricing.

Absorbed General Liability Losses

Q. How was the 2007 test year estimate for absorbed general liability losses calculated?

A. The Company's 2007 test year estimate was based on the $43,700 historical average (before application of on costs) for the four-year period 2002 through 2005, rounded to $50,000. The 2001 recorded amounts, at $181,400 for customer claims and $25,600 for other claims as shown in MECO-913, page 3 of 4, were significantly higher compared to the recorded amounts for 2002 through 2005 and were not included in the average calculation for the test year.

Labor

Q. What is the projected cost for labor related to account no. 925.02?

A. Labor is projected at $53,100 for test year 2007 which is $15,800 more than the 2005 recorded amount of $37,300 (see MECO-913, page 1) due to projected labor

hour increases for the Safety Division for accident investigation and for the T&D Operations Division for processing damage claims.

Total Account 925

Q. In summary, what is the total Labor and Non-Labor cost for account no. 925 – Injuries & Damages?

A. Total estimated test year 2007 costs for account no. 925, which include labor and non-labor costs for both account no. 925.01 – Injuries & Damages – Employees, and account no. 925.02 – Injuries & Damages – Public, are as follows:

Account 925.01	Test Year 2007 Estimate
Labor	$ 200,300
Non-Labor	561,600
Account 925.02	
Labor	$ 53,100
Non-Labor	496,200
Grand Total Account 925	$1,311,200

Employee Benefits

Account Nos. 926.000 – 926.010 - Employee Benefits and Flex Credits

Q. What is the Company's test year 2007 estimate for account nos. 926.000, Employee Pensions and Benefits, and 926.010, Employee Benefits – Flex Credits?

A. The test year estimates for account nos. 926.000 and 926.010 total $7,920,400, as shown on MECO-901, page 19.

Q. Who is responsible for addressing the test year estimates for account nos. 926.000 and 926.010?

A. The test year estimates are addressed by Ms. Julie Price in MECO T-10.

Q. Do employee benefit expenses include post-employment benefit costs?

A. Yes.

Q. What are post-employment benefits?

A. Post-employment benefits are benefits to former or inactive employees (including beneficiaries and covered dependents) after employment but before retirement. Inactive employees are those who are not currently rendering service to the employer and who have not been terminated. Examples of post-employment benefits include salary continuation, severance benefits, job training, counseling, and the continuation of health care benefits and life insurance coverage.

Q. What are the most significant post-employment benefits costs incurred by MECO?

A. The most significant post-employment benefit costs incurred by the Company are disability and medical coverage payments to employees on long-term disability ("LTD"). The liability for this LTD benefit, as of December 31, 2006, was $657,800.

Q. What does Statement of Financial Accounting Standards ("SFAS") No. 112 - Employers' Accounting for Post-employment Benefits say about accounting for post-employment benefit costs?

A. SFAS No. 112 requires the Company to recognize an expense and a liability (accrual method) for the full amount of post-employment benefits to be paid to qualifying employees <u>if</u>: 1) the liability is attributable to the employees' services already rendered, 2) the employees' rights to those benefits accumulate or vest, 3) payment of the benefits is probable, and 4) the amount of the benefits can be reasonably estimated.

Q. Does the Company's test year 2007 estimate for Employee Benefits Expense include post-employment benefit expenses on an accrual basis?

A. No, post-employment benefit expenses are included in the Company's test year 2007 estimate based on when the benefits are paid (pay-as-you-go method) versus when the liability for the benefit is incurred. The Commission has approved post-employment benefit expenses based on the pay-as-you-go method of accounting for such benefits in its decision and orders in prior rate cases.

Q. Is the Company requesting that the costs under SFAS No. 112 (accrual method) be included in its test year 2007 Employee Benefits Expense?

A. No.

Q. If SFAS No. 112 costs (accrual method) are not included in revenue requirements in this rate case, what will be the impact on the Company's financial statements?

A. The Company's liability for post-employment benefits under SFAS No. 112 is being recorded, even if the costs are not included in the current rate case. The costs to establish the liability are accrued and classified as a regulatory asset until the benefits are paid, after which time the amounts paid are reclassified from regulatory asset to expense.

Q. Has this changed from the 1999 test year rate case?

A. No, the Company has been consistently accounting for post-employment benefit costs as described above.

Q. Is the Company's accounting treatment for post-employment benefits in compliance with accounting principles generally accepted in the United States of America?

A. Yes. The Company's accounting treatment is in accordance with SFAS No. 71, Accounting for the Effects of Certain Types of Regulation, if it is probable that future rates will provide recovery of the liability for post-employment benefits, i.e.

if the Commission's decision and order in this case affirms the continued use of the pay-as-you-go method of accounting for post-employment benefit costs.

Account No. 926.020 – Employee Benefits Transferred - Credit

Q. What is the Company's 2007 test year estimate for account no. 926.020 - employee benefits transferred - credit?

A. The Company's 2007 test year estimate for account no. 926.020 - employee benefits transferred – credit, after a $113,900 adjustment, is $2,123,500 for total MECO, which is comprised of credits of $1,977,800 for Maui, $57,000 for Lanai, and $88,700 for Molokai, as shown in MECO-901, pages 19, 4, 9, and 14, respectively.

Q. What is the reason for the adjustment?

A. The adjustment to decrease the credit by $113,900 is a result of adjustments made to the gross employee benefits expenses included in the 2007 Operating Budget for purposes of determining the test year 2007 estimate, as described by Ms. Julie K. Price in MECO T-10.

Q. What does the 2007 test year estimate represent?

A. The estimated transfer amount represents that portion of total employee benefits expenses, which are initially recorded in account no. 926.000, which is transferred as an on-cost rate (formerly overhead rate) to the costs of construction and to outside third parties for services rendered (i.e. – billables).

Q. How does the Company account for employee benefits costs related to operation and maintenance (O&M) expense related work?

A. As discussed earlier with respect to account no. 922-administrative expenses transferred credit, under the NARUC USOA, the O&M expense related portion of employee benefits costs must be classified as A&G expense. As a result, the

O&M expense related portion of employee benefits on-costs applied to various O&M expense accounts by ELLIPSE (the Company's core business software system) is "reversed" and added back to administrative and general expenses.

Q. How is the test year 2007 transfer (credit) estimate determined?

A. The calculation of the 2007 test year credit estimate of $2,123,500 is shown in MECO–914.

Q. How does the 2007 test year estimate compare with previous year amounts?

A. As shown in MECO-902, the test year 2007 normalized estimate for account no. 926.020 of $2,123,500 compares with prior year amounts as follows:

	Amount (Cr.) ($Thousands)
2001 Recorded	$ (68)
2002 Recorded	(426)
2003 Recorded	(1,526)
2004 Recorded	(1,483)
2005 Recorded	(1,626)
2006 Budget	(2,065)
2007 Test Year	(2,124)

Q. What are the significant factors causing the employee benefits transferred amount to fluctuate from year to year?

A. The year to year differences are impacted principally by the individual factors comprising the calculation of the transfer credit amount. The most significant factor is the amount of costs charged to account no. 926.000. In addition, there have been large swings in recorded benefit costs over the past several years due to significant volatility in the stock market and, therefore, the trust fund's return on

assets. Another factor impacting the transfer credit amount is the transfer rate, or the amount of capital and/or billable work relative to total work (including O&M, capital and billable work). The transfer rate for 2007 is 27.0% compared to historical transfer rates over the last five years of 41.1%, 28.9%, 29.2%, 32.8%, and 30.3%, for 2001, 2002, 2003, 2004, and 2005, respectively.

Q. What causes the increase in the employee benefits transferred credit for test year 2007, compared to the 2005 recorded credit?

A. The most significant factor impacting the transfer credit for test year 2007 is the amount of costs charged to account no. 926.000 – employee pensions and benefits. The 2007 test year estimate of $7,865,400 is $2,505,200, or 47%, more than the 2005 recorded costs of $5,360,200. Ms. Julie Price discusses the changes in account no. 926.000 costs in MECO T-10. Consistent with the increase in employee benefit costs, the test year 2007 transfer credit estimate of $2,123,500 is $497,300, or 31%, more than the 2005 recorded credit of $1,626,200.

Miscellaneous A&G Expenses

Q. What are the accounts and test year 2007 amounts for the Miscellaneous group of accounts?

A. As shown in MECO-901, pages 20, 5, 10 and 15, respectively, and below, the 2007 test year estimate for the Miscellaneous group of accounts is $1,836,700 for total MECO, comprised of $1,241,900 for Maui, $189,300 for Lanai, and $405,500 for Molokai.

Account Nos.	Description	Test year 2007 Estimate ($ Thousands)
Maui Division:		
928.00	Regulatory Commission Exp.	$342

930.10	Institutional or Goodwill Advertising	3	
930.21	Community Service Activities	56	
930.22	Company Memberships	101	
930.24	Research & Development	498	
930.25	Preferred Stock & LT Debt	96	
930.28	Directors' Fees/Expenses	26	
931.00	Rents	6	
932.00	Maintenance of General Plant	114	
Sub-total Maui Division			$1,242
Lanai Division:			
930.2L	Miscellaneous General	$186	
932L	Maintenance of General Plant	3	
Sub-total Lanai Divsion			$189
Molokai Division:			
930.2M	Miscellaneous General	$365	
932M	Maintenance of General Plant	41	
Sub-total Molokai Division			$406
Total MECO			$1,837

Q. What is the nature of the costs charged to the miscellaneous group of accounts?

A. The miscellaneous group of accounts includes a variety of unrelated costs which are necessary for Company operations, but which are not provided for in other functional areas.

Account No. 928.00 - Regulatory Commission Expenses

Q. What is the Company's 2007 test year estimate for account no. 928.00 - regulatory commission expenses?

A. The 2007 test year estimate for account no. 928.00 - regulatory commission expenses, as shown in MECO-901, pages 20 and 5, is a normalization adjustment amount of $341,800. The test year estimate represents one-third of the estimated third- party and HECO non-labor costs that will be incurred for this instant Docket No. 2006-0387.

Q. How was the test year estimate of $341,800 determined?

A. The $341,800 test year estimate was based on a total of $1,025,500 of estimated costs for this rate case proceeding, amortized over a three year period. The $1,025,500 total cost estimate was based on cost estimates or inputs provided by consultants retained by MECO for this docket. The test year estimate by each type of cost is shown in MECO-915.

Q. Why does the Company propose to use a three-year amortization period?

A. A three-year amortization period was selected since it is the expected time period that the rates in this case will be in effect. In addition, as noted in Decision and Order No. 13429 (August 5, 1994), in Docket No. 7000, the Commission noted that, "in electric utility rate cases, we have assumed, based on the utilities' past experience, that there would be three-year intervals between rate cases. The period over which MECO was permitted to amortize its rate case expense in its last rate case was grounded on that assumption." Furthermore, the Commission allowed three-year amortization periods in several of the more recent MECO, HECO and HELCO rate cases, including Docket No. 97-0346, MECO's last rate case.

Q. What types of costs are included as rate case expenses in determining the $341,800 estimate for account no. 928.00?

A. As shown in MECO-915, the test year estimate for account no. 928.00 includes the non-labor costs for outside attorney fees, outside expert witness fees, and other outside expenses (such as stenographer fees, witness training costs, supplies and travel costs).

Q. Are there any unamortized external costs related to prior rate cases included in the $341,800 estimate?

A. No. External costs related to prior rate cases are not included.

Q. Does the $341,800 amortization estimate include rate case related expenses from MECO's parent company, HECO, or HECO's parent Company, HEI?

A. No, there are no costs associated with HECO or HEI included in the test year estimate, other than non-labor costs incurred by HECO on MECO's behalf, such as for stenographer fees, witness training costs, supplies and travel costs. Consistent with the Commission's ruling in Decision and Order No. 13429 (August 5, 1994) in Docket No. 7000, MECO has excluded the labor costs associated with HECO's and HEI's assistance with MECO's 2007 rate case, including HECO's Regulatory Affairs Division's costs for planning and general coordination and all HECO and HEI witness participation. While such costs should be includable in MECO's test year estimate as they represent the lowest cost of service available for planning and coordinating MECO's rate case and obtaining specialized witness services, MECO has excluded such costs from its test year estimate in order to reduce the number of issues in this proceeding. MECO does not waive its right, however, to seek recovery of these costs in future rate cases.

Q. Are internal rate case related costs included in the $341,800 estimate?

A. No. MECO's internal costs are not included in the $341,800 estimate for account no. 928.00. As directed by the Commission in D&O No. 10993 (March 6, 1991), in Docket No. 6432, employees involved with rate case work charge their labor and related non-labor costs to the various functional accounts they normally charge.

Account No. 930.10 - Institutional or Goodwill Advertising

Q. What is the Company's 2007 test year estimate for account no. 930.10 - institutional or goodwill advertising?

A. The Company's 2007 test year estimate for account no. 930.10 - institutional or goodwill advertising is $2,700, as shown in MECO-901, pages 20 and 5.

Q. What types of costs are included in the 2007 test year estimate?

A. The 2007 test year estimate includes the cost for Christmas decorations for the Kahului administration building, Company Christmas cards and related on costs.

Account No. 930.21 - Community Service Activities

Q. What is the Company's 2007 test year estimate for account no. 930.21 - community service activities?

A. The 2007 test year estimate for account no. 930.21 - community service activities is $56,200, as shown in MECO-916.

Q. What types of costs are included in account no. 930.21 – community service activities?

A. In general, these are the costs incurred by MECO in support of community services and activities. Specifically, MECO participates in activities such as news films for distribution to schools, assistance to various non-profit community clubs,

organizations and associations, and information to the community through articles in newspapers and communications via radio spots.

Q. Does the test year estimate include business contributions?

A. No. Since business contributions have been disallowed by the Commission in prior rate case proceedings, these costs are accounted for "below the line" and are not included as an expense for ratemaking purposes.

Q. How has the Commission treated community service activities expenses in prior rate proceedings?

A. Community service activities expenses were included in determining electric rates in MECO's last rate proceeding; see Amended Decision and Order No. 16922 (April 6, 1999), Docket No. 97-0346.

Q. How does the 2007 test year estimate of $56,200 compare with previous year amounts?

A. The test year 2007 normalized estimate of $56,200 is $16,300 higher than the actual expenses for 2005 of $39,900. The test year 2007 estimate is higher primarily because it includes $16,400 more for items to be distributed at community events and research and development project dedications.

<u>Account No. 930.22 - Company Memberships Expense</u>

Q. What types of costs are included in account no. 930.22 – company memberships expense?

A. Company memberships expense includes the costs of Company memberships in industrial, service, trade and technical organizations. The organizations involved include Edison Electric Institute ("EEI") and such local organizations as the Clean Islands Council, Maui Economic Development Board, Hawaii Employers Council, and Better Business Bureau.

Q. What is the Company's 2007 test year estimate for account no. 930.22 - company memberships expense?

A. The test year 2007 estimate for account no. 930.22 - company memberships expense is $101,100, after a rate case adjustment of $20,700. A listing of the various dues for the test year is shown in MECO-917, page 1 of 2.

Q. What is the nature of the rate case adjustment?

A. The $20,700 adjustment is to exclude from MECO's test year estimate the portion of EEI dues for government lobbying and political activities. This adjustment is discussed below in more detail.

Q. How was the test year 2007 EEI dues estimate determined?

A. The estimate for EEI dues of $47,300 (after adjustment) was calculated using the dues formula established by EEI and the dues rate for 2005. The EEI dues calculation is shown in MECO-917, page 2 of 2.

Q. What is the dues formula established by EEI?

A. The 2007 EEI dues are based on the recorded number of customers and electric sales revenues for 2005, and generation owned capacity as of September 1, 2006, each multiplied by its related dues rate established each year by EEI.

Q. What are the benefits to MECO and its customers of MECO's membership in EEI?

A. Some of the more significant benefits are as follows:

1) EEI membership provides an ongoing forum through which company personnel share information with their counterparts at other electric utility companies. Among other things, this exchange of information and ideas helps MECO find better overall solutions to its problems at lower costs than would otherwise be the case.

2) The multitude of ongoing EEI services provide information which helps member companies save costs. For example, there are reports on electrical system and equipment failures which alert companies to potential problems with particular equipment.

3) EEI serves as a liaison between the industry and the federal government, which allows the Company to indirectly voice its opinion on matters it would probably not otherwise have a chance to address.

Q. Does the test year EEI dues estimate include costs for government lobbying and political activities, which the Commission excluded from test year expenses in previous decisions?

A. No. The estimated portion of EEI dues related to lobbying and political activities is excluded from test year expenses, as shown in MECO-917, page 2 of 2. The dues related to lobbying and political activities is based on EEI's estimate of these activities for 2007. EEI estimates that the portion of the dues related to lobbying for 2007 is about 25% of the dues for regular activities and 70% of the SFA Industry Structure Assessment.

Q. How does the 2007 test year estimate for company membership expense compare with amounts recorded in previous years?

A. MECO's company membership expense for the test year totals $101,100, which is $1,500 higher than the $99,600 recorded in 2005.

Q. Has the Commission allowed company membership expenses in prior rate proceedings?

A. Yes, company membership expenses were included in determining utility rates in MECO's last rate proceeding, i.e., in Amended Decision and Order No. 16922 (April 6, 1999), Docket No. 97-0346.

Account No. 930.24 - Research and Development Expense

Q. What is the Company's 2007 test year estimate for account no. 930.24 - research and development expense?

A. The 2007 test year estimate for account no. 930.24 - research and development expense is $497,700, as shown in MECO-918.

Q. What is included in research and development (R&D) expense?

A. Nearly half of the expenses included in account no. 930.24 relate to MECO's membership in the Electric Power Research Institute ("EPRI"). As shown in MECO-918, the 2007 test year estimate for account no. 930.24 is comprised of $229,400 for membership dues paid to EPRI, and the remainder is primarily for amounts to be spent on local R&D activities.

Q. How was the 2007 test year estimate determined?

A. The 2007 test year estimate of EPRI dues was based on a new multi-year membership agreement (5-year) between MECO and EPRI. Under the terms of the new multi-year membership agreement, which covers the period from 2007 to 2011, the 2007 annual EPRI membership dues increased by 5% to approximately $2,085,000 for consolidated HECO, of which approximately $229,400 will be MECO's allocated share, as shown in MECO-919. For reference, a copy of the new membership agreement has been included in MECO-WP-906. Note that the 2007 test year estimate of $229,400 for EPRI membership dues was based on a rounded 11.000% allocation for MECO, as shown in MECO-919. The more precise allocation percentage for MECO is 10.655%, which would result in an

allocation of $222,200, which is $7,200 less than the test year estimate included in the Company's application. A revision to the 2007 test year estimate will be made at rebuttal, if not earlier.

Q. Was MECO a member of EPRI in 2006?

A. No. MECO chose not to renew its EPRI membership in 2006 due to: (1) budget constraints; and (2) a loss of flexibility in the use of EPRI unallocated funds under the previous EPRI agreement.

Q. During the 2006 time period when MECO was not a member of EPRI, did MECO lose all benefits of an EPRI membership?

A. No. EPRI believed our budgetary situation was a short-term event. Therefore, during 2006, EPRI allowed MECO to keep the various research and development projects that had existing funding commitments active with the understanding that MECO would join EPRI again in 2007.

Q. Is the test year 2007 EPRI membership different from the Company's EPRI membership in 2005?

A. Yes. In 2005, MECO was in the third and final year of a 3-year membership agreement with EPRI. Under this agreement, MECO was a "100%-buy" member, whereby MECO was offered a wide variety of programs, project sets, and projects (collectively referred to as products) for a fixed annual membership payment.

In 2007, since the "100%-buy" does not offer the same benefits as the 2005 "100%-buy" membership, MECO and EPRI have negotiated to provide MECO with programs, under the new multi-year membership agreement, that will offer the full spectrum of EPRI products and flexibility of using EPRI funds, at a fixed annual membership dues amount.

Q. How do MECO and its customers benefit from the Company's membership in EPRI?

A. In general, the primary benefit for both MECO and its customers results from MECO's access to information, whether it is through reports, computer software, presentations by EPRI personnel and technical experts, web casts, electronic mail or telephone inquiries. EPRI spends millions of dollars each year on research that would otherwise be far beyond the capability of any one utility to finance and administer. MECO is also able to leverage local research and development funds with EPRI funds to conduct research, development and demonstration projects and studies related to MECO projects, thus addressing specific MECO needs.

Q. What is the value of the research conducted by EPRI?

A. Typically, the results of EPRI research cost non-EPRI members anywhere from a thousand to tens of thousands of dollars per report. EPRI produces hundreds of reports, technical papers and other products each year. A license to non-EPRI members for EPRI software costs tens of thousands of dollars. An EPRI member company pays no additional fee for EPRI reports or rights to software. In addition, the EPRI funds for MECO-related projects have directly benefited the Company by increasing its knowledge base and experience in advanced technologies.

Q. Please summarize the benefits derived from MECO's membership in EPRI.

A. MECO is able to greatly stretch its research and development dollars through its membership in EPRI.

Q. How was the test year estimate for local research and development determined?

A. For the test year, MECO estimates that it will spend $255,400 on local R&D consisting of (1) $95,900 for the Sun Power for Schools program; (2) $80,000 for

a solar air conditioning project; (3) $29,500 for a power quality technology project; (4) $25,000 for a photovoltaic project grant with the County of Maui; and (5) $25,000 for an advanced HVAC systems project.

Q. How does the 2007 test year estimate for account no. 930.24 compare with previous year amounts?

A. The Company's 2007 test year estimate of $497,700 for account no. 930.24 expenses is $151,500, or 44%, higher than the 2005 recorded total amount, excluding a $42,600 coding error in 2005. The increase is primarily due to (1) a $30,700 increase for EPRI membership dues; and (2) a $117,800 increase for local research and development projects.

Q. Has the Commission supported the Company's R&D expenses in past rate cases?

A. Yes. The Commission has allowed these expenses for ratemaking purposes in past rate cases, including MECO's last rate case, Docket No. 99-0346, in Amended Decision and Order No. 16922 (April 6, 1999).

<u>Account No. 930.25 - Preferred Stock and Long-term Debt Expenses</u>

Q. What is the Company's 2007 test year estimate for account no. 930.25 - preferred stock and long-term debt expenses?

A. The 2007 test year estimate for account no. 930.25 - preferred stock and long-term debt expenses is $96,100, as shown in MECO-920.

Q. What types of costs are included in preferred stock and long-term debt expenses?

A. Preferred stock and long-term debt expenses include the service fees and expenses of bond trustees, security registrars, paying agents, and transfer agents. These expenses also include the cost of printing and mailing preferred stock dividend checks, financial information and other enclosures prepared specifically for preferred stockholders and/or long-term debt holders.

Q. How does the 2007 test year estimate compare with amounts recorded in previous years?

A. The test year estimate of $96,100 for preferred stock and long-term debt expenses is $23,100 higher than the 2005 recorded expense of $73,000. The increase is primarily due to (1) an $11,400 increase for inter-company billings from HECO's Treasury Division primarily due to additional staff time devoted to securities matters; and (2) an $11,700 increase for inter-company billings with respect to outside services for rating agencies, trustee fees and legal fees due in part to increased financing requirements.

Q. Has the Commission allowed these types of expenses in past rate cases?

A. Yes. The Commission has allowed these expenses for ratemaking purposes in past rate cases, including MECO's last rate case, Docket No. 97-0346, in Amended Decision and Order No. 16922 (April 6, 1999).

<u>Account No. 930.28 - Directors' Fees and Expenses</u>

Q. What is the Company's 2007 test year estimate for account no. 930.28 - directors' fees and expenses?

A. The 2007 test year estimate for account no. 930.28 - directors' fees and expenses is $25,900, as shown in MECO-921.

Q. What types of costs are included in directors' fees and expenses?

A. Directors' fees and expenses includes the fees, retainers and expenses of the Company's Advisory Board members in connection with their quarterly and special meetings.

Q. How was the test year estimate calculated?

A. As shown in MECO-921, the test year estimate is comprised of two parts. The first part is the fees paid to "Outside Advisory Board members", who are the

Advisory Board members not employed by MECO or HECO. The member fees are $16,000, based on four outside members, $1,000 per member per meeting, and four meetings per year (4 members x $1,000/member/meeting x 4 meetings). The remaining costs (i.e. the second part) represent the travel expenses required for HECO officers who are officers of MECO and are required to attend MECO Advisory Board meetings, travel expenses for all Advisory Board members to attend one meeting per year held on the island of Lanai or Molokai, and expenses for other miscellaneous material and supply costs for the board meetings.

Q. Has the Commission allowed these types of expenses in past rate cases?

A. Yes. The Commission has allowed account no. 930.28 expenses for ratemaking purposes in past rate cases, including MECO's last rate case, Docket No. 97-0346, in Amended Decision and Order No. 16922 (April 6, 1999).

Account No. 931.00 - Rents

Q. What is the Company's 2007 test year estimate for account no. 931.00 - rents?

A. The Company's 2007 test year estimate for account no. 931.00 - rents is $6,000 for total MECO (see MECO-901, page 20), comprised of $6,000 for Maui, none for Lanai, and none for Molokai,.

Q. What types of costs are included in the 2007 test year estimate for this account?

A. The 2007 test year estimate for account no. 931.00 includes $6,000 for postage machine lease costs.

Account No. 932.00 - Maintenance of General Plant

Q. What is the Company's 2007 test year estimate for account no. 932.00 - maintenance of general plant?

A. The Company's 2007 test year estimate for account no. 932.00 - maintenance of general plant is $158,500 for total MECO, comprised of $114,400 for Maui,

$3,200 for Lanai, and $40,900 for Molokai, as shown in MECO-901, pages 20, 5, 10 and 15, respectively.

Q. What types of costs are included in this account?

A. Account no. 932.00 includes the costs of maintaining structures, furniture, equipment and grounds used in connection with the customer service, sales, and administrative and general functions at MECO's Maui, Lanai and Molokai offices. Examples of such costs include general building and property maintenance costs (such as bathroom repairs, plumbing, lighting replacements, fence repairs, etc.), air conditioning unit maintenance, office painting, fire alarm system maintenance and maintenance contracts on calculators, typewriters, and other office equipment.

Q. How does the test year estimate compare with actual expenses for prior years?

A. The expenses in account no. 932.00 can fluctuate from year to year depending on maintenance requirements for the Administrative and General functional areas. The average recorded expense for the last five completed years (2001 to 2005) was $204,600, as shown in MECO-922. The 2007 test year estimate is $46,000 lower than the average for the last five years, and $45,700 lower than the actual 2005 recorded expense. A breakdown of the 2005 recorded expense is provided in MECO-WP-907. The 2005 recorded expenses are generally typical of the types of expenses recorded in account no. 932.00 over the past several years.

Q. Has the Commission allowed these types of expenses in past rate cases?

A. Yes. The Commission has allowed these types of expenses for ratemaking purposes in past rate cases, including MECO's last rate case, Docket No. 97-0346, in amended Decision and Order No. 16922 (April 6, 1999).

BUDGET PROCESS

Q. How was the Operating Budget for Operations and Maintenance ("O&M") expenses developed?

A. The budget amounts were developed as part of the regular Company-wide detailed budgeting and management review process from March to December 2006. The planning and budgeting instructions and assumptions used in developing the Operating Budget are provided in MECO-WP-908. During the process, detailed estimates of O&M expenses were prepared by line supervisors and managers throughout the Company. The detailed estimates, called responsibility area ("RA") budgets, were then summarized to produce the 2007 O&M expense budgets. The Operating Budget for 2007 was presented by MECO management to Hawaiian Electric Company, Inc.'s ("HECO") officers in a process similar to HECO's review session, as described by Mr. Dennis Lee in HECO T-12, Docket No. 7766, pages 37 through 46.

Q. What adjustments were made to the 2007 Operating Budget for purposes of this rate case?

A. The 2007 Operating Budget was adjusted for (1) budget adjustments, (2) rate case adjustments, and (3) normalization adjustments.

Q. What are budget adjustments?

A. Budget adjustments are made primarily to (1) correct errors, (2) update the budget for better estimates, and (3) reclassify certain costs from one account to another account or from a capital account to an O&M account. See MECO- 901, pages 21 and 22, for budget adjustments impacting the A & G accounts.

Q. What are rate case adjustments?

A. Rate case adjustments are adjustments made to simplify issues and adjustments made for rate case purposes. Adjustments relating to issue simplification are addressed by Mr. Edward Reinhardt in MECO T-1. Basically, MECO has excluded from its test year estimates certain costs (such as incentive compensation expenses) which were excluded from MECO's revenue requirements in prior rate cases, in order to simplify and reduce the number of contested issues in this case. As Mr. Reinhardt explains, MECO's position continues to be that these are appropriate costs of doing business that MECO will actually incur, and must be included in rates if MECO is to be afforded a full opportunity to earn a fair return. Therefore, MECO does not waive its right to seek recovery of these costs in future rate cases.

Q. What are normalization adjustments?

A. Normalization adjustments are intended to make the test year estimates reflect results of operations more representative of a normal, on-going level of operations, or of the operating conditions that are expected to be in effect during the period that the rates set in this docket are expected to be in effect. For example, it may be appropriate to amortize an unusual, non-recurring expense over a period of several years for ratemaking purposes if rates are not adjusted on an annual basis.

Q. How are rate case adjustments and normalization adjustments to A&G O&M accounts addressed in your testimony?

A. Rate case adjustments and normalization adjustments made to the A&G O&M accounts were addressed in conjunction with the analysis for the respective account numbers.

1 General Wage Increase

2 Q. What is the impact of general wage increases included in the 2007 Operating
3 Budget?

4 A. On an annual basis, general wage rates for test year 2007 are expected to increase
5 over recorded 2005 wage rates by 6.5% and 7.6% for bargaining unit and
6 nonbargaining unit employees, respectively (see MECO-905).

7 Q. What were the wage increase assumptions for bargaining unit positions for the
8 2007 test year?

9 A. In accordance with the Company's existing negotiated labor agreement with the
10 International Brotherhood of Electrical Workers, Local 1260, the 2007 test year
11 estimate for the labor cost for bargaining unit positions assumed wage increases of
12 1.5% on May 1, 2006 and 3.0% on November 1, 2006, with both increases
13 calculated over October 31, 2002 wage rates. In addition, an increase of 3.5% on
14 November 1, 2007 over October 31, 2007 wage rates was assumed for the period
15 after the existing labor agreement expires on October 31, 2007, i.e. for the period
16 November 1 through December 31, 2007. Ms. Julie Price's testimony in MECO
17 T-10 provides a more detailed discussion on bargaining unit wage increases.

18 Q. What were the salary increase assumptions for merit positions for the 2007 test
19 year?

20 A. The 2007 test year estimates include assumed salary increases of 3.5% and 0.25%
21 on May 1, 2006 and September 1, 2006, respectively, over April 30, 2006 salary
22 levels, and increases of 3.5% and 0.25% on May 1, 2007 and September 1, 2007,
23 respectively, over April 30, 2007 salary levels for merit employees. Ms. Julie
24 Price's testimony in MECO T-10 provides a more detailed discussion on merit
25 salary increases.

1 Standard Labor Rates

2 Q. What is the general concept behind standard labor rates?

3 A. The general concept is to distribute labor costs (amounts paid to employees) using
4 the same rate per hour regardless of the type of "pay" hour involved (e.g. straight
5 time, time and one-half, or double time pay).

6 Q. Why is MECO using standard labor rates?

7 A. One key reason is that the Company's core business software system called
8 ELLIPSE (formerly referred to as the Mincom Information Management System,
9 or MIMS, which was purchased from Mincom, Inc., an Australian based
10 company) requires the use of standard labor rates in distributing labor costs.

11 Q. How is the Company accounting for the difference between the amounts paid
12 employees for hours worked and the amount of labor costs distributed using
13 standard labor rates?

14 A. The difference between labor amounts paid and the amounts distributed is "trued
15 up" in that the difference is used to adjust the amounts distributed so that, in total,
16 the amounts distributed equal the amounts paid for each employee.

17 Q. How were the Standard Labor Rates calculated?

18 A. The basic calculation is to divide actual amounts paid by total labor hours, e.g.
19 straight time, time and one-half and double time hours. The historical hourly
20 rates, calculated by labor class, are then adjusted as appropriate to reflect budget
21 year conditions. The adjusted standard labor rates are then incorporated into the
22 Operating Budget. The Standard Labor Rates are re-evaluated at least once a
23 year, and adjusted as appropriate.

24 Q. How were the historical hourly rates adjusted for purposes of the 2007 Operating
25 Budget?

A. The historical rates were adjusted to reflect the general pay increases expected in 2006 and during the 2007 test year. In addition, the historical 2005 overtime statistics were adjusted to make them consistent with the expected overtime budgeted for 2007.

Q. Why is the methodology used by MECO to adjust the historical overtime statistics reasonable?

A. MECO's methodology used to adjust the historical overtime statistics is reasonable because MECO's methodology was consistent with the methodology used by HECO in Docket No. 04-0113 and by HELCO in Docket No. 05-0315.

Q. How is the labor true-up calculated?

A. The labor true-up is based on the proportionate share of labor dollars charged to each activity, work order, etc. to the total amount of labor dollars charged during the applicable period. For each employee, the true-up is calculated and applied at the time of each paycheck run and the processing of each month-end payroll accrual. The payroll accrual records labor costs from the end of the last pay-period in the month to the end of the month.

Q. Can you illustrate the "true-up" process?

A. Yes. The "true-up" process is illustrated in MECO-WP-910. The left side of the work-paper illustrates how an employee's pay is calculated, and how the pay would be distributed if the employee's actual pay rate was used. The right side of the work-paper illustrates how the standard labor rate is calculated and how the employee's labor costs are initially distributed and then trued-up to the employee's total actual pay. For simplicity, the illustration is based on an assumed actual straight time pay rate of $10.00 per hour, and an assumed equivalent calculated standard labor rate of $10.00 per hour.

Q. Were the details of standard labor rates and the true-up process discussed in a prior rate case?

A. Yes. The details of standard labor rates and the true-up process were discussed in HELCO T-10 in Docket No. 99-0207 and in HECO T-13 in Docket No. 04-0113.

Q. What is the impact of using standard labor rates instead of actual employee pay rates in calculating the 2007 test year labor estimates?

A. The impact has not been quantified, and the calculation would be very difficult to perform. However, a sense of the possible difference can be obtained from reviewing the size of the net true-up adjustment in prior years. The annual net true-up adjustment for 2001 through 2005, by block of NARUC account numbers, is provided in MECO-WP-901. Based on the historical true up data, it appears that 2007 test year labor costs are more likely to be understated than overstated.

<u>On-Costs</u>

Q. What is meant by the term "on-costs"?

A. "On-costs" is the MIMS terminology for overheads. Overheads (on-costs) is a well-recognized and accepted accounting concept applied when costs cannot reasonably or practically be charged to the appropriate "end destination point" at the time the cost is incurred. For example, the costs of receiving into the storeroom stock material (e.g. conductors) that could later be issued and used on either a capital project or operation and maintenance project cannot reasonably or practically be charged to the proper project or end account number at the time the receiving costs are incurred. In these types of situations, the costs are typically charged to an overhead account at the time incurred and then allocated to the appropriate projects and accounts using a systematic and rational procedure. In this stores material example, the material receiving costs (and other costs to

operate the storeroom) can be allocated (cleared) as a percentage of the material cost (the clearing base) as the material is issued to the various capital and operation and maintenance projects.

Q. What types of costs are being distributed through the on-cost process, and how are the costs being distributed?

A. The major cost items included in each on-cost, and the basis over which each on-cost is allocated are shown in MECO-WP-909. The specific on-cost is shown under the first column of the work-paper, the major cost items are shown under the second column, and the allocation (clearing) base for each on-cost is shown under the third column. For example, the costs allocated through the Non-Productive Wages on-cost (see third item under the first column) include vacation, holiday and sick pay, as well as the costs of other excused absences such as absences for a death in the family or for jury duty (see second column). Non-Productive Wages are allocated by applying an on-cost dollar amount to productive labor hours (see third column).

Q. In what prior proceeding was the subject of on-costs discussed?

A. The subject of on costs is also discussed in HELCO T-10, Docket No. 99-0207.

STAFFING - ACCOUNTING DEPARTMENT

Q. How many Accounting Department employees are included in the 2007 test year?

A. The 2007 test year includes 15 Accounting Department employees for all of 2007.

Q. What new positions are being added to the Accounting Department in 2007?

A. No new positions are being added to the Accounting Department in 2007.

GENERAL INFLATION FACTOR

Q. Was a general inflation factor utilized in MECO's budgeting process?

A. Yes, in developing the non-labor O&M estimates for the 2007 Operating Budget, MECO used a general inflation factor when specific known cost indices for non-labor costs were not available. Budget preparers were instructed to reflect in their 2007 budget line items specific inflation rates or cost indices that were applicable to the cost items being estimated. For example, the inflation rate or cost index used to budget the costs of various chemicals consumed in overhauling a generating unit may be quite different from the appropriate inflation rate or cost index used in estimating the cost of postage for Company mailings. When specific known cost indices for non-labor costs were not available, a general inflation factor was used.

Q. What general inflation factor was used in developing the Operating Budget?

A. MECO used a general inflation factor of 2.5% for 2007 in preparing its Operating Budget.

Q. How did MECO determine the 2.5% general inflation factor used in preparing the Operating Budget?

A. MECO used an inflation rate that appeared to be reasonable and conservative, considering the information available at the time the budget was prepared. The Blue Chip Economic Indicators ("Blue Chip") reported in its July 10, 2006 issue that the 2007 CPI-U was expected to increase by 2.7%, as shown on MECO-WP-911. MECO rounded this rate down to a rate of 2.5% for the preparation of its 2007 Operating Budget.

Q. Do more recent estimates support MECO's inflation rate assumptions as being reasonable?

A. Yes. MECO's 2.5% inflation factor for 2007 is reasonable considering that the University of Hawaii Economic Research Organization (UHERO), in its

September 8, 2006 quarterly forecast update, forecasted an increase of 4.2% in Honolulu's Consumer Price Index for all urban consumers ("CPI-U") for 2007, as shown on MECO-WP-912, page 12. Based on these sources, an inflation factor of 2.5% for 2007 is conservative.

Q. Has the Commission allowed the use of inflation factors in determining projected expenses in previous rate case decisions?

A. Yes, the Commission allowed the use of an inflation adjustment based on an inflation factor in previous rate cases, including MECO's 1999 test year rate case, Docket No. 97-0346.

Has the Company provided a list of activities where the inflation factor was used, as requested by the Consumer Advocate in prior cases?

Yes, a list of activities where the general inflation factor was used in the Pillar system in determining the non-labor estimates for the test year is provided in MECO-923 .

Q. How did MECO determine the list of activities where the inflation factor was used and the corresponding budget amounts?

A. The Hyperion Pillar budgeting system allows the budget user to select a data field indicating the use of an "escalator" (general inflation factor). By selecting this "escalator" data field, the budgeting system will automatically "escalate" the amount budgeted by the "escalation" factor (general inflation factor) that has been set up in the budgeting system. The information on MECO-923 was developed by sorting the Hyperion Pillar budget data by selecting all budget data that used the "escalation" data field.

ACCOUNTING FOR PENSION AND POST RETIREMENT BENEFITS OTHER THAN PENSION PLANS

Pension and OPEB Background

Q. Please briefly explain the Company's qualified pension and postretirement benefit plans.

A. As described by Ms. Julie Price in MECO T-10, the Company provides pension benefits to its employees by participating in the Retirement Plan for Employees of Hawaiian Electric Industries, Inc. and Participating Subsidiaries, a qualified defined benefit pension plan. MECO provides postretirement benefits other than pensions through participation in the Postretirement Welfare Benefits Plan for Employees of Hawaiian Electric Company, Inc. and Participating Employers.

Q. Please briefly describe the accounting and reporting requirements for pensions and postretirement benefits other than pensions ("OPEB").

A. The Company's accounting and reporting requirements with respect to its pension and postretirement benefits other than pension ("OPEB") plans are based on generally accepted accounting principles ("GAAP"). Specifically, the Company follows Statement of Financial Accounting Standards ("SFAS") No. 87, "Employers' Accounting for Pensions", SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", and the newly issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132 (R)", which for MECO, became effective on December 31, 2006.

SFAS No. 87:

Q. Under the guidance provided by SFAS No. 87, how are pensions reflected on the Company's financial statements?

A. Pensions are reflected on the financial statements as follows:

- Income Statement

  The costs of the benefits provided by the Company's pension plan are recognized as net periodic pension costs ("NPPC") over the period the benefits are earned (i.e., as employees provide the related employment services). The NPPC is the annual amount that the Company must recognize on its financial statement as the cost of providing pension benefits to its employees for the year, and includes amounts ultimately charged primarily to both expense and to capital. In addition, a portion of the NPPC is charged to outside third parties for services rendered, i.e., to billable work. As explained by Ms. Julie Price in MECO T-10, the five major components of the NPPC are: service cost, interest cost, actual return on plan assets, amortization of prior service cost, and amortization of gains and losses. There are a number of factors that affect the NPPC, such as the provisions of the plan, the demographic characteristics of the employees, the performance of the pension fund as it is invested over time, and the actuarial assumptions used in the calculations.

- Balance Sheet

  A liability (unfunded accrued pension cost) is recognized if the cumulative NPPC exceeds the cumulative amounts the employer has contributed to the plan. An asset (prepaid pension cost) is recognized if the cumulative NPPC recognized is less than the cumulative amounts contributed to the pension plan. However, under SFAS No. 87, the accounting changes when the pension obligation exceeds the fair value of the pension plan assets. The fair value of the pension plan assets represents the estimated market value of the fund at the measurement date, which is December 31, for MECO. The accumulated

benefit obligation ("ABO") approximates the actuarial present value of benefits previously earned by participants based on current compensation levels, at the measurement date. Under SFAS No. 87, if at the measurement date, the fair value of the assets of the pension plan is less than the ABO by as little as $1, the Companies would be required to (1) record a liability, at least equal to the difference between the ABO and the fair value of the pension plan assets, (2) eliminate any prepaid pension asset, and (3) record a charge, net of income taxes (which would represent a net loss not yet recognized as a periodic pension cost) directly to a component of equity, called accumulated other comprehensive income ("AOCI").

- Financial Statement Footnote

  The value of the pension plan assets and the pension obligation are included in the footnotes to the financial statements. Footnote disclosure also includes descriptions of the plan and items which have in the past or can in the future impact the cost of the pension.

SFAS No. 106:

Q. Under the guidance provided by SFAS No. 106, how are OPEBs reflected on the Company's financial statements?

A. OPEBs are reflected on the financial statements as follows:

- Income Statement

  The costs of the benefits provided by the Company's OPEBs are recognized as net periodic benefit costs ("NPBC") over the period the benefits are earned (i.e., as employees provide the related employment services). The NPBC is the annual amount that the Company must recognize on its financial statement as the cost of providing OPEBs to its employees for the year, and includes

amounts ultimately charged primarily to both expense and to capital. A portion of the NPBC also is charged to outside third parties for services rendered, i.e., to billable work. As explained by Ms. Julie Price in MECO T-10, similar to pensions, the five major components of the NPBC are: service cost, interest cost, actual return on plan assets, amortization of prior service cost, and amortization of gains and losses. The factors that impact pensions, such as the provisions of the plan, the demographic characteristics of the employees, the performance of the plan assets as it is invested over time, and the actuarial assumptions used in the calculations, impact the NPBC as well. In addition, the income statement reflects the amortization costs of the unrecognized transition obligation related to the timing of the initial adoption of SFAS No. 106, as approved by the Commission in Interim Decision and Order No. 12886 dated April 6, 1993, Decision and Order No. 13659 dated November 29, 1994, and the letter from the Commission dated December 28, 1994, in Docket Nos. 7233 and 7243 (Consolidated).

- Balance Sheet

A liability (unfunded accrued OPEB cost) is recognized if the cumulative NPBC exceeds the cumulative amounts the employer has contributed to the OPEB plan. An asset (prepaid OPEB cost) is recognized if the cumulative NPBC recognized is less than the cumulative amounts contributed to the OPEB plan. OPEB accounting is very similar to pensions; however, unlike the minimum pension liability recognition requirement under SFAS No. 87, there is no requirement to recognize a minimum OPEB liability under SFAS No. 106.

- Financial Statement Footnote

  The value of the OPEB plan assets and the OPEB obligation are included in the footnotes to the financial statements. Footnote disclosure also includes descriptions of the plan and items which have in the past or can in the future impact the cost of the plan.

SFAS No. 158:

Q. What has changed as a result of the new SFAS No. 158?

A. SFAS No. 158 is the initial phase of a comprehensive project of the Financial Accounting Standards Board to improve the accounting for defined benefit and other postretirement plans. The new SFAS No. 158 amends both SFAS Nos. 87 and 106. SFAS No. 158 requires balance sheet recognition of the funded status of defined benefit pension plans measured as the difference between the fair value of the pension plan assets and the projected benefit obligation ("PBO"), as opposed to the accumulated benefit obligation ("ABO"). The PBO is an estimate of the pension promise as of a specified date, and is measured using an assumption as to future compensation levels.

In addition, SFAS No. 158 requires balance sheet recognition of the funded status of the OPEB plan measured as the difference between the fair value of the OPEB Plan's assets and the accumulated postretirement benefit obligation ("APBO") for the OPEB plan.

More specifically, under SFAS No. 158, MECO is required to (1) recognize the overfunded or underfunded status of its defined benefit pension and other post retirement plans (based on the difference between the fair value of the plan assets and the PBO for pensions and the APBO for other post retirement plans) in its balance sheet, (2) recognize as a component of AOCI, net of tax, the actuarial

gains and losses, the prior service costs and credits that arise during the period but are not recognized as components of NPPC, and any remaining transition obligation from the initial application of SFAS No. 87 or SFAS No. 106, and (3) disclose additional information in the notes to financial statements about certain effects on net periodic pension and other postretirement benefit costs.

Ratemaking Treatment:

Q. How have pension and OPEB costs been treated for ratemaking purposes?

A. For ratemaking purposes, MECO, HECO and HELCO (the "Utility Companies") have consistently included (and the Commission has accepted) the net effect of all components of pension and OPEB accounting, under SFAS No. 87 and SFAS No. 106, respectively, in the ratemaking process. Specifically, MECO incorporates the NPPC and NPBC in its budget of employee benefits, which are included in administrative and general ("A&G") expense. If the Company forecasts a net pension asset or OPEB asset, the Company includes the net pension asset or OPEB asset in rate base. If the Company forecasts a pension or OPEB liability, the pension or OPEB liability is treated as a deduction in the rate base calculation. In addition, the Company has recognized an OPEB liability relating to OPEB costs incurred in the transition to implementing SFAS No. 106, which is offset by a regulatory asset in the same amount. The Company's forecast of working cash is based on the accrual method of accounting for pension and OPEB expense, consistent with the other components.

Q. Is there a rate base tax effect associated with the net pension and OPEB asset or liability?

A. Yes, there is an accumulated deferred income tax liability amount or a deferred tax asset amount associated with a net pension and OPEB asset or pension and OPEB liability amount, respectively.

Docket No. 05-0310 "For Approval to Record a Regulatory Asset for Any Pension Liability Which Would Otherwise be Charged to Accumulated Other Comprehensive Income":

Q. How did the fair value of MECO's pension plan assets compare to its ABO at December 31, 2005?

A. At December 31, 2005, the fair value of the pension plan assets of $89.7 million exceeded the ABO of $88.8 million; therefore, the Company reflected a prepaid pension asset on its balance sheet, in accordance with SFAS No. 87. However, the fair value of the assets exceeded the ABO by only approximately $0.9 million, or 1.0 percent. In other words, the fair value was in jeopardy of being insufficient to cover the ABO at the valuation date (December 31, 2005), which was of significant concern. MECO faced similar situations in 2003 and 2004. The fund contributions in 2003, 2004 and 2005 were intended to reduce the possibility of an AOCI charge. The Company was not required to make any contributions to the plan to meet minimum funding requirements under ERISA or the IRC in those years.

Q. Did the Companies consider other means for mitigating an AOCI charge?

A. Yes. The Utility Companies filed a consolidated application on December 8, 2005 (Docket No. 05-0310) requesting the Commission to:

(1) Allow the Companies to record as a regulatory asset pursuant to the Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Regulations", the amount that would otherwise be

1 charged to AOCI as required under SFAS No. 87 as a result of recording a
2 minimum pension liability;
3 (2) Allow the Companies to continue to record as a regulatory asset in
4 subsequent years the amount that would otherwise be charged directly to
5 AOCI; and
6 (3) Allow the Companies to continue to recover their annual cost of providing
7 pension benefits to their employees, as actuarially calculated under the
8 provisions of SFAS No. 87.
9 Q. What was the reason for the application when it was initially filed?
10 A. The application was filed in the event the Utility Companies were required to
11 record a minimum pension liability, and a charge to AOCI, under SFAS No. 87 at
12 the end of 2005. If approved, the requested regulatory asset treatment was
13 intended to mitigate the negative effects that could otherwise result from a charge
14 to AOCI.
15 Q. Was MECO required to record a minimum pension liability and charge to AOCI
16 at the end of 2005?
17 A. No. MECO was able to retain a prepaid pension asset position at December 31,
18 2005, but only by a slim margin. As I mentioned previously, the fair value of the
19 plan assets exceeded the ABO by only approximately $0.9 million, or 1.0 percent.
20 Q. Was MECO required to record a minimum pension liability and charge to AOCI
21 at the end of 2006?
22 A. Yes. MECO was required to record substantial charges to AOCI for its pension
23 plan at the end of 2006, in accordance with SFAS No. 158. The actual amount of
24 AOCI charges recorded at the end of 2006 will be provided at a later date in
25 updates to the estimates provided in MECO-928.

Q. Was MECO required to record OPEB liability and charges to AOCI at the end of 2006?

A. Yes. MECO was required to record substantial charges to AOCI for its OPEB plan at the end of 2006, in accordance with SFAS No. 158. The actual amount of AOCI charges recorded at the end of 2006 will be provided at a later date in updates to the estimates provided in MECO-929.

Q. What is the concern regarding reflecting the underfunded status of the pension and OPEB plans?

A. Although the recordation of the underfunded status of the pension and OPEB plans as of the end of 2006 was a non-cash balance sheet change and did not impact the income statement, MECO's equity and balance sheet amounts were significantly impacted. The significant charge to AOCI artificially increased MECO's return on average common equity, since the Company's book equity decreased significantly, without any change in economic conditions or net income. Ms. Tayne Sekimura, in MECO T-17, discusses the impact of an AOCI charge to equity on the financial ratios and how investors assess the impact.

Q. What is the status of Docket No. 05-0310?

A. The Commission issued its Decision and Order (D&O) No. 23223 on January 26, 2007. The D&O denied the Utility Companies' request to record a regulatory asset.

Q. In Docket No. 05-0310, were the Utility Companies seeking approval of the ratemaking treatment of the amount that was being requested to be recorded as a regulatory asset pursuant to SFAS No. 71?

A. No. The Utility Companies' request for approval in Docket No. 05-0310 was to record as a regulatory asset <u>for financial reporting purposes</u> the amount that would

otherwise be charged to equity (i.e., to AOCI) as required under the provisions of SFAS No. 87 or SFAS No. 158 as a result of recognizing the funded status of pension and OPEB plan liabilities. The Utility Companies indicated that the ratemaking treatment of the regulatory asset will be addressed in their rate cases.

Ratemaking Treatment Proposal

Q. How does MECO propose to treat pension and OPEB costs in light of the new SFAS No. 158 and D&O No. 23223 in Docket No. 05-0310?

A. MECO proposes to continue to include in revenue requirements the NPPC for pensions and the NPBC for OPEBs, as actuarially calculated under the provisions of SFAS No. 87, and SFAS No. 106, respectively.

In addition, as shown in MECO-928 and MECO-929, MECO proposes to include in rate base the cumulative pension contributions in excess of cumulative pension costs recognized (pension asset) and the cumulative OPEB contributions net of cumulative OPEB costs recognized (OPEB amount = zero). These amounts can be reconciled to the financial statements because the pension AOCI charge less the pension liability is equal to what I will refer to hereafter as the pension asset and the sum of the OPEB AOCI charge and regulatory asset less the OPEB liabilities is equal to the OPEB amount (zero).

Q. Would MECO's proposed ratemaking treatment be different if the cumulative pension contributions were less than the cumulative pension costs recognized?

A. No. In years in which the cumulative pension contributions are less than the cumulative pension costs recognized, a pension liability would exist. MECO would propose to treat such pension liability for ratemaking purposes as a deduction from rate base in a manner similar to how the estimated pension liability was treated in MECO's last rate case. In amended D&O No. 16922 in Docket No.

97-0346, MECO's 1999 test year rate case, the final rate base included deduction for an average pension liability of $1,200,500, based on estimated pension liability balances of $762,000 and $1,639,000 as of January 1, 1999 and December 31, 1999, respectively.

Q. What are the test year 2007 estimates for the pension asset?

A. The pension asset at the beginning of the test year is $5,223,000 and at the ending of the test year is $1,419,000 as shown on MECO-928 page 1. The average 2007 test year balance is $3,321,000. At the beginning of the test year and at the end of the test year, cumulative pension contributions exceed the cumulative pension costs recognized.

Q. How do the ratemaking estimates for the pension asset balances reconcile to the book estimates for pension balance sheet items?

A. The test year 2007 estimates for the beginning of the year include a pension AOCI charge of $23,770,000, a pension liability of $18,547,000, resulting in a net balance sheet amount (excluding the related deferred tax impact) of $5,223,000, as shown in MECO-928, page 2. The estimates were based on the market value of the pension plan as of December 31, 2005, a 9% return on plan asset assumption, a discount rate of 5.75%, and an asset experience (used to determine the fair value of the plan) of 8.5% in 2006.

The test year estimates for the end of the year include a pension AOCI charge of $25,531,000, a pension liability of $24,112,000, resulting in a net balance sheet amount (excluding the related deferred tax impact) of $1,419,000, as shown in MECO-928, page 2. The estimates were based on the market value of the pension plan as of December 31, 2005, a 8.5% return on plan asset

assumption, a discount rate of 6.00%, and an asset experience (used to determine the fair value of the plan) of 8.5% in 2006 and 2007.

Q. What are the test year 2007 estimates for the OPEB amounts?

A. The OPEB amounts at the beginning and end of the test year are zero as shown on MECO-929 page 1. At the beginning of the test year and at the end of the test year, cumulative OPEB contributions equal the cumulative OPEB costs recognized.

Q. How do the ratemaking estimates for the OPEB amounts reconcile to the book estimates for OPEB balance sheet items?

A. The test year 2007 estimates for the beginning of the year include a SFAS 106 regulatory asset of $1,344,000, SFAS 158 AOCI charge of $5,193,000, OPEB liability of $6,537,000, resulting in zero net balance sheet impact, as shown in MECO-929, page 2. The estimates were based on the market value of the OPEB plan as of December 31, 2005, a 9% return on plan asset assumption, a discount rate of 5.75%, and an asset experience (used to determine the fair value of the plan) of 8.5% in 2006.

The test year estimates for the end of the year include a SFAS 106 regulatory asset of $1,120,000, SFAS 158 AOCI charge of $5,305,000, OPEB liability of $6,425,000, resulting in zero net rate base impact, as shown in MECO-929, page 2. The estimates were based on the market value of the OPEB plan as of December 31, 2005, a 8.5% return on plan asset assumption, a discount rate of 6.00%, and an asset experience (used to determine the fair value of the plan) of 8.5% in 2006 and 2007.

Q. Who estimated the fair value of the plan assets as of December 31, 2006 and 2007, as shown in MECO-928, page 2 and MECO-929, page 2?

A. Watson Wyatt Worldwide, the consulting enrolled actuary, developed the estimate to assist the Company in analyzing the impact of the new SFAS No. 158, based on the assumptions noted above. The pension and OPEB plans' trustee, The Bank of New York, determine the fair value of the funds for financial reporting purposes.

Q. Who determined the PBO and APBO amounts as of December 31, 2006 and 2007 shown in MECO-928, page 2 and MECO-929, page 2?

A. Watson Wyatt Worldwide, the consulting enrolled actuary, determined the PBO and APBO amounts.

Q. Who administers MECO's pension and OPEB plans?

A. The Pension Investment Committee ("PIC") is the named fiduciary for the HEI and Participating Subsidiaries' (including MECO) pension and OPEB plan. The PIC is responsible for overseeing the administration of the pension and OPEB plans and management of all plan assets. The PIC uses professional money managers to manage plan assets.

Q. What has been the PIC's general funding policy?

A. For the OPEB plan, based on Decision and Order No. 13659, the Utility Companies fund the full SFAS No. 106 cost amounts. For the pension plan, the PIC's funding policy is to contribute amounts to the pension plan in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA") and the Internal Revenue Code ("IRC").

ERISA has a specific methodology for determining the required funding for the pension plan. MECO relies on its actuary, Watson Wyatt Worldwide, for the annual calculation of minimum funding under ERISA.

The IRC also specifies minimum and maximum fund contributions to avoid adverse tax consequences. MECO also relies on its actuary, Watson Wyatt

Worldwide, for the annual calculation of minimum and maximum funding under the IRC.

Within the minimum funding requirements of ERISA and the maximum deductible funding allowed under the IRC, the PIC considers the impact of funding on the financial accounting and disclosure of the plan in the Company's financial statements. There are no specific requirements under generally accepted accounting principles as to how a company should fund its pension. Generally, it has been the practice of the PIC to fund the NPPC; however, in 2003, 2004 and 2005, the PIC based its funding decision largely on the adequacy of the funding relative to the ABO. As ordered in D&O 23223 in Docket No. 05-0310, the Companies will undertake a study of their pension funding policy and submit it in Docket No. 2006-0386, HECO's 2007 test year rate case.

Q. What do the estimated pension asset balances as of December 31, 2006 and 2007 shown on MECO-928, pages 1 and 2 represent?

A. The estimated pension asset balances as of December 31, 2006 and 2007 represent the net of the cumulative investor supplied fund contributions in excess of the cumulative previously recognized pension cost.

Fund contributions are the cash payments the Company has made to the pension fund over the years. Recognized pension cost is the accumulated NPPC that the Company has recognized on its income statement.

Q. How was the pension asset created?

A. MECO-928 page 1 summarizes the annual pension activity since the inception of SFAS No. 87. The historical activity shows that in the period from 1987 through 1994, in general, the NPPC was rising annually and MECO funded the NPPC. Beginning in 1995, the NPPC begins showing greater volatility, primarily

declines. The declining NPPC resulted primarily from higher stock prices increasing the fair value of plan assets and the lower interest rate environment, which resulted in a lower discount rate used to calculate the net present value of the pension obligation. Under SFAS No. 87, the increase in plan asset returns (due to the higher fair value of the plan assets) and the decrease in pension obligation (due to the lower discount rate and lower net present value of the plan obligation) are not immediately recognized. Rather, the recognition of the change is deferred in order to smooth the NPPC (as compared to the volatility that would be experienced if the changes were entirely recognized in the year they occur). As mentioned earlier, in the period from 1987 through 1994, in general, the NPPC was rising annually and MECO funded the NPPC.

From 1995 through 1998, because MECO generally funded the primarily declining NPPC, the pension asset balance was not significant. Beginning in 2000 and continuing through 2002, MECO began experiencing negative NPPC accruals. Therefore, although no fund contributions were made in those years, the pension asset grew significantly. In addition, as stated earlier, MECO made fund contributions in 2003 and 2004 that were significantly more than the NPPC, further increasing the pension asset balance.

Q. Why was the pension asset created?

A. Even though the negative NPPC accruals in the period 2000 through 2002 increased the pension asset significantly during these years, ERISA prohibited MECO from taking cash refunds from the pension fund. Funds contributed to the pension fund must stay in the pension fund (except under special circumstances such as plan termination). Moreover, under Section 4980 of the IRC, there is a 20% tax on the amount of any reversion of qualified pension plan assets to an

1 employer. Thus, even though MECO's contributions to the pension fund
2 generally matched the NPPC in earlier years, MECO could not take cash from the
3 pension fund to match the negative NPPC accruals in 2000 through 2002.
4 Further, from 2000 through 2002, MECO was not required to make a minimum
5 contribution under ERISA and could not make deductible fund contributions
6 under the IRC. Contributions in excess of the IRC maximum contribution would
7 be subject to a 10% non-deductible excise tax, effectively a 10% penalty for
8 contributions, under Section 4972 of the IRC. As a result, in the period 2000
9 through 2002, the increase in the net pension asset was solely a function of the
10 negative NPPC. Essentially, the pension asset was created during this period
11 because MECO complied with the law.
12 Q. Please explain why MECO increased the pension asset in 2003 and 2004.
13 A. In 2003, MECO had a relatively low NPPC, but was potentially facing a situation
14 at the measurement date, December 31, 2003, in which the fair value of the
15 pension plan assets may not have been sufficient to cover the ABO. MECO faced
16 similar situations in 2004 and 2005, in which the ABO at the measurement date,
17 December 31, 2004 and December 31, 2005, respectively, potentially could have
18 exceeded the fair value of the pension assets. Funding the pension to sufficiently
19 cover the ABO is significant because it is a rough, optimistic measure of whether
20 the funds are sufficient to cover the plan if the plan were terminated. If the fair
21 value of the pension assets is less than the ABO, it also results in a different and
22 adverse accounting treatment under SFAS No. 87. MECO tried to anticipate the
23 estimated values of the pension fund and the ABO at year end via careful
24 monitoring of the stock market and interest rates and decided in each year (2003,

2004 and 2005) to provide a certain level of funding to sufficiently cover the ABO.

Q. Does the fact that MECO estimated a pension asset balance of $5.2 million at December 31, 2006 indicate that it had previously overfunded its pension plan?

A. No. In fact, the situation is generally the opposite. As I mentioned earlier, at December 31, 2006, the PBO is estimated to exceed the pension fund (the pension is underfunded by this measure) by approximately $18.5 million. In addition, at December 31, 2005, the pension fund exceeded the ABO by only 1.0%, or $0.9 million.

Q. What impact has the implementation of SFAS 158 had on the Company's cumulative contributions and cumulative NPPC (or NPBC)?

A. The implementation of SAFS 158 has had no impact on the Company's cumulative contributions and cumulative NPPC (or NPBC).

Q. Why is the Company's ratemaking proposal reasonable?

A. MECO's ratemaking proposal reflects the continued inclusion of all components of pension and OPEB accounting in the ratemaking process.

NPPC and NPBC have consistently been used in the past to determine benefit costs for ratemaking purposes, and should continue to be used to determine benefit costs in the future.

Likewise, the difference between the cumulative NPPC (or NPBC) and cumulative fund contributions should continue to be included in rate base to properly reflect investor-supplied funds.

Although SFAS No. 158 changes the components that comprise the pension and OPEB as presented on the balance sheet, as discussed above, the net amounts, which represent the difference between the cumulative investor contributions and

cumulative NPPC (or NPBC) are the same as previously calculated under SFAS No. 87 and SFAS No. 106, respectively. The net impact to rate base of the pension AOCI charge, excluding deferred taxes, and the pension liability is exactly the same as what the prepaid asset amount would have been for the test year had SFAS No. 158 not been issued and had there been no requirement to charge AOCI. See MECO-928, pages 1 and 2. The OPEB SFAS 106 regulatory asset (i.e., the unamortized transition obligation related to the timing of the initial adoption of SFAS No. 106 as approved by the Commission in Interim Decision and Order No. 12886 dated April 6, 1993, Decision and Order No. 13659 dated November 29, 1994, in Docket Nos. 7233 and 7243 (Consolidated)), OPEB SFAS 158 AOCI charge, excluding deferred taxes, and the OPEB liability would net to zero impact to rate base, which is the same result as would occur if there was no requirement to charge AOCI. See MECO-929, pages 1 and 2. The test year estimates in this proceeding reflect such proposed ratemaking treatment. Ms. Julie Price in MECO T-10 includes the NPPC and the NPBC as part of the employee benefits expenses. As shown in MECO-1501, MECO's rate base for the test year includes the Pension AOCI, the OPEB AOCI – SFAS 158, Unamortized OPEB Reg Asset – SFAS 106, Pension Liability and the OPEB Liability.

Q. Why is it proper to include the pension asset in rate base?

A. Including the pension asset in rate base is proper because: (1) the pension asset reflects a prudent investment, funded by investors, that is used or useful in providing electric utility service, (2) the pension asset benefits the ratepayers and (3) other jurisdictions have allowed a pension asset to be included in rate base.

(1) The Pension Asset Was Funded By Investors and Is Used or Useful In Providing Electric Utility Service

Q. Was the pension asset funded by investors?

A. Yes. Payments made to the pension fund were from the same sources of funds that MECO would use to make any investment; therefore, the cumulative fund contributions were provided by investors. There were no special contributions from any source. Ratepayers do not fund Company investments. Rather, they pay for services and those payments are recorded as revenues. Investor funds are used to fund the pension plan just as investor funds are used to construct or purchase the gross plant assets. Investors contributed $27.0 million to the pension plan for the period 1987 to 2005 (see MECO-928 page 1). The cumulative NPPC represents the cumulative recovery of pension cost provided by ratepayers. Since in the test year, the cumulative fund contributions exceed the cumulative NPPC, the cumulative difference represented by the pension asset amount is the net amount provided by investors.

Q. Is the pension plan used or useful in providing electric utility service?

A. Yes. MECO provides pension benefits to its employees by participating in the Retirement Plan for Employees of Hawaiian Electric Industries, Inc. and Participating Subsidiaries, a qualified defined benefit pension plan. The pension plan is an integral part of the Company's compensation package to its employees, and is necessary to attract and retain quality employees that are engaged in the provision of providing electric service to the public.

Q. Were MECO's contributions to the pension plan prudent?

A. Yes. MECO's contributions to the pension plan were prudent. Part of the asset was established when the NPPC was negative. From 2000 through 2002, the

activity in the pension asset was solely a function of the negative NPPC. The negative NPPC resulted from the performance of the pension fund (e.g., the return on plan assets) which was established through contributions from investors, the actuarial valuations, and the accounting treatment prescribed under SFAS No. 87. By law MECO could not withdraw funds from the ERISA Plan. The rest of the asset was established when MECO made lawful contributions to avoid the risk of having the ABO exceed the fair value of the pension plan assets. MECO made contributions in 2003, 2004 and 2005 to avoid the possibility of an AOCI charge that would have resulted if the fair value of the pension fund in each of those years were less than the ABO.

Q. Were the decisions in 2003, 2004, and 2005 to make pension contributions to sustain a prepaid pension asset, including determining the amount to contribute, difficult?

A. Yes. The decisions to make contributions to sustain a prepaid pension asset rather than record a charge to AOCI were difficult because they required making a decision without knowledge of actual year-end plan asset and liability information and the decision and actual contribution must be made prior to year end. The decision had to consider the estimated ABO at year end, the estimated fair market value of the assets at year end (i.e., predicting where the stock market would be at year end), and making the contribution days in advance of year end such that the trust fund has the funds as of December 31. Despite the difficulty of the decisions, the contribution amounts were reasonable, and the fair value of MECO's plan assets exceeded the ABO by only $0.9 million, or 1.0%, at the December 31, 2005 valuation date.

Q. Do the fund contributions in 2003, 2004 and 2005 mitigate the impact of the requirement of SFAS No. 158?

A. Yes. As previously discussed, SFAS No 158 requires companies to compare the fair value of pension plan assets to the projected benefit obligation (PBO), and to report on its balance sheet the amount by which the defined pension obligation is over or under funded. Contributions to the plan increase the fair value of the plan assets. Thus in comparing the fair value of the plan to the projected benefit obligation, all other things being equal, additional contributions reduce the amount of any under funding of the plan or increase any overfunding position. The estimated pension liability at December 31, 2006 would be higher had there not been contributions in 2003, 2004, and 2005.

(2) Ratepayers Have Benefited From The Pension Asset

Q. How do ratepayers benefit from the pension asset?

A. Ratepayers have benefited from the pension asset, and its components, in several ways. The negative accruals of the past are negative costs that reduced expenses and lowered revenue requirements, which in turn helped make it unnecessary for MECO to apply for a general rate increase for the seven-year period from 2000 through 2006. Furthermore, ratepayers benefited directly in 2002 when MECO recorded a negative $1,496,000 NPPC accrual in the same year in which MECO also reduced its recovery of DSM shareholder incentives by $631,400 (net of revenue taxes) in order to not exceed its allowed rate of return as a result of the earnings cap that was implemented with the Commission's Order No. 19093, filed on November 30, 2001, in Docket Nos. 95-0173, 95-0174, 95-0175 and 95-0176.

In addition, some of the negative NPPC was transferred to construction resulting in a lower amount of construction work in progress upon which AFUDC

is accrued and thus, lower costs added to rate base.

Further, ratepayers have benefited from the relatively lower NPPC as a result of the pension fund contributions which increase the pension asset. The pension asset resulted in part from MECO's contributions of $27.0 million during the period 1987 to 2005. Those contributions increased the assets in the pension fund on which a return on investment could be earned. Return on pension plan assets is one of the components of the NPPC, and is normally a credit, which reduces the NPPC. The higher the level of funds in the pension's portfolio, the greater will be the earnings to offset other pension costs resulting in a lower NPPC.

By allowing the inclusion of the pension asset in rate base, ratepayers may benefit from relatively lower cost of capital. If the Company is not allowed a return on the pension asset in rate base or is not allowed to restore equity for the AOCI for ratemaking purposes, these changes would likely negatively impact the total debt/total capital and funds from operations interest coverage ratios. As discussed further by Ms. Sekimura in section T-17, if the Company is denied either aspect of regulatory support, it would result in lower operating income. Further, this regulatory treatment would presumably be applied to HECO and HELCO which would also result in lower operating income at HECO and HELCO. The consolidated impact of this lack of regulatory support would result in credit quality degradation, which could result in higher cost of capital.

Moreover, ratepayers benefit from an adequately funded pension plan. Adequate funding reduces the risk that, in the future, MECO will be required to make a contribution to the pension plan at a time when the Company may not have funds available or access to capital markets to contribute to the pension. If the pension plan is not adequately funded, the Company may be required under

ERISA or under IRC to make fund contributions. Minimum fund contribution requirements may come at a time when the Company has other significant capital requirements or when capital markets are constrained. Maintaining an adequately funded pension plan preserves the financial flexibility of having discretion over the timing of fund contributions. Conversely, inadequate funding of the pension plan could adversely impact the Company's credit quality, which would ultimately result in higher financing costs, which would not benefit ratepayers.

If the Company is not allowed a return on the pension asset in rate base, the benefits to ratepayers would be double-counted since the ratepayers would have the benefits of relatively lower NPPC (resulting from the fund contributions) and lower capital project costs due to the lower NPPC, but would not be paying for the cost of making the fund contributions.

(3) Other Jurisdictions

Q. Have other jurisdictions addressed the subject of the recovery of the pension asset?

A. Yes. This subject has been discussed in the opening and reply briefs of the parties in HECO's test year 2005 rate case (Docket No. 04-0113).

Pension and OPEB Summary

Q. How should pension and OPEBs be reflected for ratemaking purposes?

A. All of the components for accounting for pension and OPEBs should be reflected for ratemaking purposes. The NPPC and NPBC as determined under SFAS Nos. 87 and 106 should continue to be used in determining the annual costs of pension and OPEB plans. In addition, the cumulative investor-supplied pension fund contributions in excess of the cumulative pension costs recognized, net of the deferred taxes, should be included in rate base. As discussed, the implementation

of SFAS No. 158 has had no impact on the cumulative investor contributions and the cumulative NPPC (or NPBC), such that the net impact to rate base of the SFAS No. 158 required pension AOCI charge, net of the deferred taxes, and pension liability is essentially the net pension asset amount. Investors have provided the cash to the pension fund, the contributions were prudent and ratepayers have benefited from the pension asset. Inclusion of the pension asset in rate base will fairly compensate investors for the funds they have advanced for the funding of the pension.

ABANDONED CAPITAL PROJECT COSTS

Q. What is an abandoned capital project?

A. An abandoned capital project is one in which a "no go" decision is made during the time the project costs are classified as Construction Work in Progress, i.e. a "no go" decision is made sometime during the detailed engineering through construction completion stages of the project's life cycle. A project is also considered to be abandoned if the project is significantly delayed at management's discretion, i.e. delayed generally for more than two years.

Q. How are abandoned project costs treated?

A. Under normal circumstances, the costs of abandoned capital projects are charged to appropriate operation and maintenance expense account(s), unless the costs result in items that have future value. If any of the costs represent items that have future value, e.g. assets that are usable on another capital project, the related costs are transferred to the other project or to other accounts (e.g. inventory in the case of stock material) as appropriate.

Q. What happens if a project is abandoned under unusual circumstances?

A. If a capital project is abandoned and unusual circumstances exist, the Company may seek PUC approval for special accounting and ratemaking treatment as appropriate under the circumstances.

Q. Is there a more detailed description of how the Company accounts for capital project costs?

A. Yes. The Company's policy is provided in MECO-926.

Q. Why is an adjustment for abandoned capital project costs necessary?

A. The Company expects that capital projects will be abandoned from time to time, and that the related costs incurred will be written off to expense. However, the Company's Operating Budget does not normally include O&M expense estimates for specific abandoned project costs since budget preparers do not generally contemplate that projects will be abandoned. Therefore, an adjustment to the Company's 2007 Operating Budget is necessary to include in revenue requirements a reasonable amount for abandoned project costs since such costs are expected to be incurred.

Q. How were the adjustment amounts for abandoned capital project costs determined?

A. The adjustment amounts represent the four-year average of actual abandoned capital project cost write-offs from 2002 through 2005. See MECO-927. Note that the Company implemented its current practice of tracking abandoned project costs in 2002. As such, data prior to 2002 was not available, which necessitated limiting the calculation of the 2007 test year estimate to a four-year average.

Q. How are the adjustment amounts presented in the Company's 2007 test year estimates?

A. The adjustment amounts, totaling approximately $104,900, were provided to Mr. Andrew Herrera (MECO T-6) for inclusion in the test year estimates he covers, based on the historical account numbers that were charged with the write-offs. In other words, the Company assumed that future abandoned project costs will be written off to the various NARUC expense accounts in amounts equal to the averages of amounts recorded from 2002 to 2005.

COMPUTER SOFTWARE DEVELOPMENT COSTS

Q. What directive has the Commission issued regarding the ratemaking treatment for computer software development costs?

A. In Decision and Order No. 18365 (Docket No. 99-0207, HELCO's test year 2000 rate case), the Commission ruled that its pre-approval is required before any computer software development project costs may be deferred and amortized for ratemaking purposes.

Q. How is the Company currently recording the costs of computer software development projects?

A. In accordance with the Commission's ruling in Docket No. 99-0207, the Company is expensing as incurred, for ratemaking purposes, all computer software development project costs, unless prior Commission approval is obtained to defer and amortize certain project costs.

Q. If Commission approval is obtained to defer and amortize certain project costs, how is the Company currently recording computer software development costs?

A. The Company's current accounting policy with respect to computer software development costs, which is the same policy used by HECO and HELCO, is provided in MECO-924. The policy, updated as of April 1, 2006, is consistent with the accounting treatment specified in the stipulated agreement approved by

the Commission in the Customer Information System (CIS) docket (Docket No. 04-0268, Decision & Order No. 21798 dated May 3, 2005) and in HECO's Outage Management System (OMS) docket. As a result of those dockets, the previous policy was updated to incorporate more of the details of implementing the policy.

The Company's policy is also consistent with the American Institute of Certified Public Accountants' Statement of Position 98-1 (SOP 98-1) – Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, issued in March 1998, and Emerging Issues Task Force (EITF) Issue 97-13 – Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation, discussed by the EITF on November 20, 1997.

Q. What specific details were incorporated into the policy as a result of the stipulated agreements?

A. In the stipulated agreements, the Companies agreed to work with the Consumer Advocate to identify costs related to process reengineering, and agreed that such costs would be expensed as incurred. In addition, MECO and the Consumer Advocate agreed that certain overhead costs related to energy delivery, customer installations and corporate administration, which would be included in the deferred costs as the current ELLIPSE system includes such costs as part of the normal overhead calculation process, should be expensed in accordance with SOP 98-1.

Q. Please summarize how the costs are treated under the policy.

A. In summary, software development projects can be segregated into three stages as follows:

1. Preliminary Project Stage (Stage I) - includes conceptual formulation of software alternatives, evaluation of the alternatives, determination of the existence of needed technology, and final selection of alternatives, and if necessary, selection of a consultant to assist in the development/installation. These costs are expensed as incurred.

2. Application Development Stage (Stage II) - includes the design of a chosen path, including software configuration and software interface, coding, software installation, and testing of the software and parallel processing. Certain internal and external costs incurred during this stage should be capitalized (i.e., charged to a deferred account.) However, external and internal training costs, as well as certain conversion costs, are charged to expense.

3. Post-Implementation/Operation Stage (Stage III) - includes training and application maintenance. Internal and external costs incurred during this stage should be charged to expense as incurred.

4. Allowance for funds used during construction ("AFUDC") would be applied to the deferred project costs during Stage II. The deferred costs would be amortized over a straight-line basis over the useful life of the software (or such other amortization period as the Commission determines to be reasonable) beginning the month following when the software is ready for intended use. Generally, the software is ready for intended use after substantial testing is completed.

5. Similar to the un-depreciated costs of capitalized plant and equipment, the unamortized costs of computer software development projects should be included in the calculation of rate base. Rate base treatment is appropriate because investors have provided the funds up front to develop the computer software system and should be allowed to earn a fair return on their unamortized investments.

6. Under the current Company policy, the costs of projects estimated at less than $500,000 are expensed as incurred based on immateriality, even though some of the costs could theoretically be capitalized. For purposes of MECO's Test Year 2007 estimates, the costs of projects estimated at less than $500,000 were assumed to be expensed. This is consistent with the treatment for costs in Docket No. 04-0113, HECO's pending rate case. The parties in the proceeding did not object to such treatment for software development costs below $500,000.

Q. Has the Commission approved the deferral and amortization of computer software development costs for certain projects?

A. Yes, the Commission has approved in Decision and Order No. 21798 in Docket No. 04-0268, issued May 3, 2005, the request of HECO, HELCO and MECO (as

modified by the stipulation with the Consumer Advocate) to defer certain computer software development costs for the Customer Information System ("CIS") project, accumulate AFUDC on the deferred costs during the deferral period, amortize the deferred costs over a twelve year period, and include the unamortized deferred costs in rate base. In addition the Commission has approved in Decision and Order No. 21899 in Docket No. 04-0131, issued June 30, 2005, HECO's request (as modified by the stipulation with the Consumer Advocate) to defer certain software development costs for HECO's Outage Management System ("OMS") project, accumulate AFUDC on the deferred costs during the deferral period, amortize the deferred costs over a twelve year period, and include the unamortized deferred costs in rate base. HECO, HELCO and MECO have also requested, in Docket No. 2006-0003, approval to defer certain software development costs for the Human Resources Suite System ("HR Suite") project, accumulate AFUDC on the deferred costs during the deferral period, amortize the deferred costs over a twelve year period, and include the unamortized deferred costs in rate base. The Consumer Advocate has indicated that it does not object to the approval of the application. However, it has several concerns and has recommended several conditions to address those concerns. The Companies and the Consumer Advocate reached an agreement, memorialized in a jointly issued letter to the Commission dated January 25, 2007, which addresses the CA's concerns in that proceeding.

Q. How are the costs for the CIS project reflected in the test year estimates?

A. As described by Ms. Sharon Suzuki in MECO T-7, the CIS project is expected to be completed in early 2008. During 2007, the project will be in stage II, and costs incurred for the project are either expensed or deferred (with related AFUDC)

depending on the type of work performed. Since the project will not be ready for use by the end of the test year, the deferred costs are budgeted to accrue AFUDC and are not included in rate base. No amortization expense is included in the test year for the CIS project.

Q. How are the costs related to the HR Suite project reflected in the test year estimates?

A. As described by Ms. Julie Price in MECO T-10, Phase 1 of the HR Suite project is expected to be completed in November 2007. The deferred costs for Phase 1 of the HR Suite project (including AFUDC) are estimated at $469,600, which will be amortized over a twelve year period beginning December 2007, the month following the completion of Phase 1. Amortization expense for 2007 amounts to $3,300. The estimated unamortized balance at December 31, 2007 for the HR Suite project amounts to $466,300, as shown in MECO-925 and is included in the year end rate base as discussed by Ms. Gayle Ohashi in MECO T-15.

SUMMARY

Q. Please summarize your testimony.

A. The Test Year 2007 normalized amounts which the Company has demonstrated to be fair and reasonable in this docket include the following:

Description	Test Yr. Estimates
Administrative and General Expenses	$ 13,559,700
Computer Software Develop Costs	
Amortization expense for 2007	$ 3,300
Unamortized System Development costs 12/31/06	$ 0
Unamortized System Development costs 12/31/07	$ 466,300

Abandoned Capital Project Costs	$ 104,900
Net Pension Asset	
Balance at 12/31/06	$5,223,000
Balance at 12/31/07	$1,419,000
Net OPEB Asset	
Balance at 12/31/06	$ 0
Balance at 12/31/07	$ 0

The $3,300 with respect to the Amortization of Computer System Software Development costs represents the amortization expense during 2007 related to the HR Suites project, which is expected to be ready for use in 2007. The $104,900 with respect to abandoned capital project costs represents the historical average of abandoned project cost write-offs, which would not otherwise be included in the Company's test year estimates as forecasters do not generally contemplate that projects will be abandoned. See Mr. Herrera's testimony at MECO T-6 for further detail.

With respect to the pension and OPEB plans, all of the components for accounting for pension and OPEBs should be reflected for ratemaking purposes. The NPPC and NPBC as determined under SFAS Nos. 87 and 106, respectively, should continue to be used in determining the annual costs of the pension and OPEB plans. In addition, the cumulative investor-supplied pension fund contributions in excess of the cumulative pension costs recognized, net of the deferred taxes, should be included in rate base. As discussed above, the net impact to rate base of the pension AOCI charge, net of the deferred taxes, and pension liability is essentially the net pension asset amount. Investors have provided the cash to the pension fund, the contributions were prudent and ratepayers have benefited from the net pension asset. Inclusion of the net pension

asset in rate base will fairly compensate investors for the funds they have advanced for the funding of the pension.

Q. What other accounting and ratemaking treatment is the Company requesting of the Commission in this docket?

A. The Company is asking the Commission to specifically reaffirm, in its Decision and Order in this docket, the continued use of the pay-as-you-go method of accounting for post-employment benefit costs. Please see the earlier discussion with respect to SFAS No. 112 under Employee Benefits.

Q. Does this conclude your testimony?

A. Yes, it does.

LYLE J. MATSUNAGA

EDUCATIONAL BACKGROUND AND EXPERIENCE

Business Address:	Maui Electric Company, Limited 210 West Kamehameha Ave. Kahului, HI 96732
Current Position:	Manager of Accounting
Years of Service:	7 years
Education:	University of Washington Masters of Business Administration Bachelor of Arts - Economics
Professional License:	Certified Public Accountant (not in public practice) State of Hawaii

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
MAUI DIVISION

	OPERATING BUDGET		BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
ADMINISTRATIVE						
920 ADMIN & GENL EXP - LABR						
LABOR	1,835.6					1,835.6
NON-LABOR	681.1			(339.8)		341.3
TOTAL 920	2,516.7		-	(339.8)	-	2,176.9
921 ADMIN & GENL EXP - NLABR						
LABOR	247.6					247.6
NON-LABOR	657.8			(8.1)	5.4	655.1
TOTAL 921	905.4		-	(8.1)	5.4	902.7
922 ADMIN EXP TRANSFERRED						
NON-LABOR	(938.9)	A	(280.1)			(1,219.0)
TOTAL 922	(938.9)		(280.1)	-	-	(1,219.0)
ADMINISTRATIVE - TOTAL						
LABOR	2,083.2		-	-	-	2,083.2
NON-LABOR	400.0		(280.1)	(347.9)	5.4	(222.6)
TOTAL	2,483.2		(280.1)	(347.9)	5.4	1,860.6

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
MAUI DIVISION

	OPERATING BUDGET		BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
OUTSIDE SERVICES						
923010 OUTSIDE SERVICES - LEGAL						
NON-LABOR	20.1					20.1
TOTAL 923010	20.1		-	-	-	20.1
923020 OUTSIDE SERVICES - OTHER						
NON-LABOR	88.1					88.1
TOTAL 923020	88.1		-	-	-	88.1
923030 OUTSIDE SERVICES - ASSOC CO						
NON-LABOR	2,055.2	B	1.0	(120.2)	(61.1)	1,874.9
TOTAL 923030	2,055.2		1.0	(120.2)	(61.1)	1,874.9
TOTAL OS SVCS	2,163.4		1.0	(120.2)	(61.1)	1,983.1

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
MAUI DIVISION

	OPERATING BUDGET	BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
INSURANCE					
924 PROPERTY INSURANCE					
LABOR	-				-
NON-LABOR	750.3				750.3
TOTAL 924	750.3	-	-	-	750.3
925 INJURIES & DAMAGES					
LABOR	268.4				268.4
NON-LABOR	1,042.8				1,042.8
TOTAL 925	1,311.2	-	-	-	1,311.2
INSURANCE - TOTAL					
LABOR	268.4	-	-	-	268.4
NON-LABOR	1,793.1	-	-	-	1,793.1
TOTAL	2,061.5	-	-	-	2,061.5

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
MAUI DIVISION

	OPERATING BUDGET		BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
EMPLOYEE BENEFITS						
926000 EMPL PENSIONS AND BENEFITS						
LABOR	80.1	C	(5.5)			74.6
NON-LABOR	7,905.6	C,D,E, I	(523.3)	(57.9)	(18.7)	7,305.7
TOTAL 926000	7,985.7		(528.8)	(57.9)	(18.7)	7,380.3
926010 EMPL BENEFITS - FLEX CREDITS						
NON-LABOR	-					-
TOTAL 926010	-		-	-	-	-
926020 EMPL BENEFITS - TRANSFER						
NON-LABOR	(2,237.4)	F,G	259.6			(1,977.8)
TOTAL 926020	(2,237.4)		259.6	-	-	(1,977.8)
EMPLOYEE BENEFITS - TOTAL						
LABOR	80.1		(5.5)	-	-	74.6
NON-LABOR	5,668.2		(263.7)	(57.9)	(18.7)	5,327.9
TOTAL	5,748.3		(269.2)	(57.9)	(18.7)	5,402.5

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
MAUI DIVISION

	OPERATING BUDGET		BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
OTHER ADMIN & GENL						
928 REGULATORY COMMISSION EXPENSES						
NON-LABOR	-				341.8	341.8
TOTAL 928	-		-	-	341.8	341.8
9301 INSTITUTN/GOODWILL ADVERT EXP						
LABOR	-					-
NON-LABOR	2.7					2.7
TOTAL 9301	2.7		-	-	-	2.7
9302 MISCELLANEOUS GENERAL EXPENSES						
LABOR	19.4					19.4
NON-LABOR	771.0	H	7.3	(20.7)		757.6
TOTAL 9302	790.4		7.3	(20.7)	-	777.0
931 RENT EXPENSE - A&G						
NON-LABOR	6.0					6.0
TOTAL 931	6.0		-	-	-	6.0
932 ADMIN AND GENL MAINTENANCE						
LABOR	-					-
NON-LABOR	114.4					114.4
TOTAL 932	114.4		-	-	-	114.4
OTHER A&G - TOTAL						
LABOR	19.4		-	-	-	19.4
NON-LABOR	894.1		7.3	(20.7)	341.8	1,222.5
TOTAL	913.5		7.3	(20.7)	341.8	1,241.9
TOTAL A&G O&M	13,369.9		(541.0)	(546.7)	267.4	12,549.6

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
LANAI DIVISION

	OPERATING BUDGET	BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
ADMINISTRATIVE					
92000 ADMIN & GENL EXP - LABR					
LABOR	-				-
NON-LABOR					-
TOTAL 92000	-	-	-	-	-
92100 ADMIN & GENL EXP - NLABR					
LABOR					-
NON-LABOR	-				-
TOTAL 92100	-	-	-	-	-
92201 ADMIN EXP TFRD TO CONSTR					
NON-LABOR	-				-
TOTAL 92201	-	-	-	-	-
ADMINISTRATIVE - TOTAL					
LABOR	-	-	-	-	-
NON-LABOR	-	-	-	-	-
TOTAL	-	-	-	-	-

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
LANAI DIVISION

	OPERATING BUDGET	BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
OUTSIDE SERVICES					
923010 OUTSIDE SERVICES - LEGAL					
NON-LABOR	-				-
TOTAL 923010	-	-	-	-	-
923020 OUTSIDE SERVICES - OTHER					
NON-LABOR	-				-
TOTAL 923020	-	-	-	-	-
923030 OUTSIDE SERVICES - ASSOC CO					
NON-LABOR	-				-
TOTAL 923030	-	-	-	-	-
TOTAL OS SVCS	-	-	-	-	-

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
LANAI DIVISION

	OPERATING BUDGET	BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
INSURANCE					
924 PROPERTY INSURANCE					
LABOR	-				-
NON-LABOR	-				-
TOTAL 924	-	-	-	-	-
925 INJURIES & DAMAGES					
LABOR	-				-
NON-LABOR	-				-
TOTAL 925	-	-	-	-	-
INSURANCE - TOTAL					
LABOR	-	-	-	-	-
NON-LABOR	-	-	-	-	-
TOTAL	-	-	-	-	-

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
LANAI DIVISION

	OPERATING BUDGET		BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
EMPLOYEE BENEFITS						
926000 EMPL PENSIONS AND BENEFITS						
LABOR		C	2.2			2.2
NON-LABOR	-	C	209.2			209.2
TOTAL 926000	-		211.4	-	-	211.4
926010 EMPL BENEFITS - FLEX CREDITS						
NON-LABOR	-					-
TOTAL 926010	-		-	-	-	-
926020 EMPL BENEFITS - TRANSFER						
NON-LABOR	-	G	(57.0)			(57.0)
TOTAL 926020	-		(57.0)	-	-	(57.0)
EMPLOYEE BENEFITS - TOTAL						
LABOR	-		2.2	-	-	2.2
NON-LABOR	-		152.2	-	-	152.2
TOTAL	-		154.4	-	-	154.4

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
LANAI DIVISION

	OPERATING BUDGET		BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
OTHER ADMIN & GENL						
928 REGULATORY COMMISSION EXPENSES						
NON-LABOR	-					-
TOTAL 928	-		-	-	-	-
9301 INSTITUTN/GOODWILL ADVERT EXP						
LABOR	-					-
NON-LABOR	-					-
TOTAL 9301	-		-	-	-	-
9302 MISCELLANEOUS GENERAL EXPENSES						
LABOR	-					-
NON-LABOR	90.0	A	96.1			186.1
TOTAL 9302	90.0		96.1	-	-	186.1
931 RENT EXPENSE - A&G						
NON-LABOR	-					-
TOTAL 931	-		-	-	-	-
932 ADMIN AND GENL MAINTENANCE						
LABOR	-					-
NON-LABOR	3.2					3.2
TOTAL 932	3.2		-	-	-	3.2
OTHER A&G TOTAL						
LABOR	-		-	-	-	-
NON-LABOR	93.2		96.1	-	-	189.3
TOTAL	93.2		96.1	-	-	189.3
TOTAL A&G O&M	93.2		250.5	-	-	343.7

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
MOLOKAI DIV

	OPERATING BUDGET	BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
ADMINISTRATIVE					
92000 ADMIN & GENL EXP - LABR					
LABOR	11.5				11.5
NON-LABOR					-
TOTAL 92000	11.5	-	-	-	11.5
92100 ADMIN & GENL EXP - NLABR					
LABOR	1.8				1.8
NON-LABOR	7.6				7.6
TOTAL 92100	9.4	-	-	-	9.4
92201 ADMIN EXP TFRD TO CONSTR					
NON-LABOR	-				-
TOTAL 92201	-	-	-	-	-
ADMINISTRATIVE - TOTAL					
LABOR	13.3	-	-	-	13.3
NON-LABOR	7.6	-	-	-	7.6
TOTAL	20.9	-	-	-	20.9

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
MOLOKAI DIV

	OPERATING BUDGET	BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
OUTSIDE SERVICES					
923010 OUTSIDE SERVICES - LEGAL					
NON-LABOR	-				-
TOTAL 923010	-	-	-	-	-
923020 OUTSIDE SERVICES - OTHER					
NON-LABOR	-				-
TOTAL 923020	-	-	-	-	-
923030 OUTSIDE SERVICES - ASSOC CO					
NON-LABOR	-				-
TOTAL 923030	-	-	-	-	-
TOTAL OS SVCS	-	-	-	-	-

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
MOLOKAI DIV

	OPERATING BUDGET	BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
INSURANCE					
924 PROPERTY INSURANCE					
LABOR	-				-
NON-LABOR	-				-
TOTAL 924	-	-	-	-	-
925 INJURIES & DAMAGES					
LABOR					-
NON-LABOR	-				-
TOTAL 925	-	-	-	-	-
INSURANCE - TOTAL					
LABOR	-	-	-	-	-
NON-LABOR	-	-	-	-	-
TOTAL	-	-	-	-	-

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
MOLOKAI DIV

	OPERATING BUDGET		BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
EMPLOYEE BENEFITS						
926000 EMPL PENSIONS AND BENEFITS						
LABOR		C	3.3			3.3
NON-LABOR	-	C	325.4			325.4
TOTAL 926000	-		328.7	-	-	328.7
926010 EMPL BENEFITS - FLEX CREDITS						
NON-LABOR	-					-
TOTAL 926010	-		-	-	-	-
926020 EMPL BENEFITS - TRANSFER						
NON-LABOR	-	G	(88.7)			(88.7)
TOTAL 926020	-		(88.7)	-	-	(88.7)
EMPLOYEE BENEFITS - TOTAL						
LABOR	-		3.3	-	-	3.3
NON-LABOR	-		236.7	-	-	236.7
TOTAL	-		240.0	-	-	240.0

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
MOLOKAI DIV

	OPERATING BUDGET		BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
OTHER ADMIN & GENL						
928 REGULATORY COMMISSION EXPENSES						
NON-LABOR	-					-
TOTAL 928	-		-	-	-	-
9301 INSTITUTN/GOODWILL ADVERT EXP						
LABOR	-					-
NON-LABOR	-					-
TOTAL 9301	-		-	-	-	-
9302 MISCELLANEOUS GENERAL EXPENSES						
LABOR	0.6					0.6
NON-LABOR	180.0	A	184.0			364.0
TOTAL 9302	180.6		184.0	-	-	364.6
931 RENT EXPENSE - A&G						
NON-LABOR	-					-
TOTAL 931	-		-	-	-	-
932 ADMIN AND GENL MAINTENANCE						
LABOR	11.1					11.1
NON-LABOR	29.8					29.8
TOTAL 932	40.9		-	-	-	40.9
OTHER A&G - TOTAL						
LABOR	11.7		-	-	-	11.7
NON-LABOR	209.8		184.0	-	-	393.8
TOTAL	221.5		184.0	-	-	405.5
TOTAL A&G O&M	242.4		424.0	-	-	666.4

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
TOTAL COMPANY

	OPERATING BUDGET	BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
ADMINISTRATIVE					
92000 ADMIN & GENL EXP - LABR					
LABOR	1,847.1	-	-	-	1,847.1
NON-LABOR	681.1	-	(339.8)	-	341.3
TOTAL 92000	2,528.2	-	(339.8)	-	2,188.4
92100 ADMIN & GENL EXP - NLABR					
LABOR	249.4	-	-	-	249.4
NON-LABOR	665.4	-	(8.1)	5.4	662.7
TOTAL 92100	914.8	-	(8.1)	5.4	912.1
92201 ADMIN EXP TFRD TO CONSTR					
NON-LABOR	(938.9)	(280.1)	-	-	(1,219.0)
TOTAL 92201	(938.9)	(280.1)	-	-	(1,219.0)
ADMINISTRATIVE - TOTAL					
LABOR	2,096.5	-	-	-	2,096.5
NON-LABOR	407.6	(280.1)	(347.9)	5.4	(215.0)
TOTAL ADMINISTRATIVE	2,504.1	(280.1)	(347.9)	5.4	1,881.5

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
TOTAL COMPANY

	OPERATING BUDGET	BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
OUTSIDE SERVICES					
923010 OUTSIDE SERVICES - LEGAL					
NON-LABOR	20.1	-	-	-	20.1
TOTAL 923010	20.1	-	-	-	20.1
923020 OUTSIDE SERVICES - OTHER					
NON-LABOR	88.1	-	-	-	88.1
TOTAL 923020	88.1	-	-	-	88.1
923030 OUTSIDE SERVICES - ASSOC CO					
NON-LABOR	2,055.2	1.0	(120.2)	(61.1)	1,874.9
TOTAL 923030	2,055.2	1.0	(120.2)	(61.1)	1,874.9
TOTAL OS SVCS	2,163.4	1.0	(120.2)	(61.1)	1,983.1

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
TOTAL COMPANY

	OPERATING BUDGET	BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
INSURANCE					
924 PROPERTY INSURANCE					
LABOR	-	-	-	-	-
NON-LABOR	750.3	-	-	-	750.3
TOTAL 924	750.3	-	-	-	750.3
925 INJURIES & DAMAGES					
LABOR	268.4	-	-	-	268.4
NON-LABOR	1,042.8	-	-	-	1,042.8
TOTAL 925	1,311.2	-	-	-	1,311.2
INSURANCE - TOTAL					
LABOR	268.4	-	-	-	268.4
NON-LABOR	1,793.1	-	-	-	1,793.1
TOTAL	2,061.5	-	-	-	2,061.5

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
TOTAL COMPANY

	OPERATING BUDGET	BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
EMPLOYEE BENEFITS					
926000 EMPL PENSIONS AND BENEFITS					
LABOR	80.1	-	-	-	80.1
NON-LABOR	7,905.6	11.3	(57.9)	(18.7)	7,840.3
TOTAL 926000	7,985.7	11.3	(57.9)	(18.7)	7,920.4
926010 EMPL BENEFITS - FLEX CREDITS					
NON-LABOR	-	-	-	-	-
TOTAL 926010	-	-	-	-	-
926020 EMPL BENEFITS - TRANSFER					
NON-LABOR	(2,237.4)	113.9	-	-	(2,123.5)
TOTAL 926020	(2,237.4)	113.9	-	-	(2,123.5)
EMPLOYEE BENEFITS - TOTAL					
LABOR	80.1	-	-	-	80.1
NON-LABOR	5,668.2	125.2	(57.9)	(18.7)	5,716.8
TOTAL	5,748.3	125.2	(57.9)	(18.7)	5,796.9

MAUI ELECTRIC COMPANY, INC.
TEST YEAR 2007 ($1000S)
TOTAL COMPANY

	OPERATING BUDGET	BUDGET ADJ	RATE CASE ADJ	NORM ADJ	TEST YEAR ESTIMATE
OTHER ADMIN & GENL					
928 REGULATORY COMMISSION EXPENSES					
NON-LABOR	-	-	-	341.8	341.8
TOTAL 928	-	-	-	341.8	341.8
9301 INSTITUTN/GOODWILL ADVERT EXP					
LABOR	-	-	-	-	-
NON-LABOR	2.7	-	-	-	2.7
TOTAL 9301	2.7	-	-	-	2.7
9302 MISCELLANEOUS GENERAL EXPENSES					
LABOR	20.0	-	-	-	20.0
NON-LABOR	1,041.0	287.4	(20.7)	-	1,307.7
TOTAL 9302	1,061.0	287.4	(20.7)	-	1,327.7
931 RENT EXPENSE - A&G					
NON-LABOR	6.0	-	-	-	6.0
TOTAL 931	6.0	-	-	-	6.0
932 ADMIN AND GENL MAINTENANCE					
LABOR	11.1	-	-	-	11.1
NON-LABOR	147.4	-	-	-	147.4
TOTAL 932	158.5	-	-	-	158.5
OTHER A&G - TOTAL					
LABOR	31.1	-	-	-	31.1
NON-LABOR	1,197.1	287.4	(20.7)	341.8	1,805.6
TOTAL	1,228.2	287.4	(20.7)	341.8	1,836.7
TOTAL A&G O&M	13,705.5	133.5	(546.7)	267.4	13,559.7

MAUI ELECTRIC COMPANY, INC.
ADMINISTRATIVE & GENERAL O&M EXPENSE
TEST YEAR 2007 ($1000S)
BUDGET ADJUSTMENTS

Note	Account	Description	Amount
A	922.01	Adjustment to allocate A&G O&M expenses to Lanai and Molokai Divisions. Adjustment amount available after operating budget finalized.	(280.1)
A	9302L	Adjustment to allocate A&G O&M expenses to Lanai and Molokai Divisions. Adjustment amount available after operating budget finalized.	96.1
A	9302M	Adjustment to allocate A&G O&M expenses to Lanai and Molokai Divisions. Adjustment amount available after operating budget finalized.	184.0
Sub-total for A			-
B	923.03	Adjustment to add annual maintenance for FOCUS software. Adjustment required to correct omission from operating budget.	1.0
C	926.00	Adjustment to allocate employee benefits expense to Lanai and Molokai Divisions. Adjustment amount available after operating budget finalized.	(5.5)
C	926.00	Adjustment to allocate employee benefits expense to Lanai and Molokai Divisions. Adjustment amount available after operating budget finalized.	(534.6)
C	926L	Adjustment to allocate employee benefits expense to Lanai and Molokai Divisions. Adjustment amount available after operating budget finalized.	2.2
C	926L	Adjustment to allocate employee benefits expense to Lanai and Molokai Divisions. Adjustment amount available after operating budget finalized.	209.2
C	926M	Adjustment to allocate employee benefits expense to Lanai and Molokai Divisions. Adjustment amount available after operating budget finalized.	3.3
C	926M	Adjustment to allocate employee benefits expense to Lanai and Molokai Divisions. Adjustment amount available after operating budget finalized.	325.4
Sub-total for C			-

MAUI ELECTRIC COMPANY, INC.
ADMINISTRATIVE & GENERAL O&M EXPENSE
92202 ADMIN EXP TFRD OTH THAN CONSTR
BUDGET ADJUSTMENTS

Note	Account	Description	Amount
D	926.00	Adjustment to add amortization for HR Suites system development deferred costs. Adjustment amount available after operating budget finalized.	3.3
E	926.00	Adjustment of pension and OPEB expense. Adjustment for updated estimate available after operating budget finalized.	(47.0)
F	926.02	Adjustment of employee benefits transferred estimate. Adjustment to reflect budget, rate case and normalization adjustments to gross employee benefits expense.	113.9
G	926.02	Adjustment to allocate employee benefits transfer to Lanai and Molokai Divisions. Adjustment amount available after operating budget finalized.	145.7
G	926.02L	Adjustment to allocate employee benefits transfer to Lanai and Molokai Divisions. Adjustment amount available after operating budget finalized.	(57.0)
G	926.02M	Adjustment to allocate employee benefits transfer to Lanai and Molokai Divisions. Adjustment amount available after operating budget finalized.	(88.7)
Sub-total for G			-
H	9302	Adjustment of EPRI annual dues. Adjustment for updated estimate available after operating budget finalized.	7.3
I	926.00	Adjustment to add post employment benefit expense. Adjustment required to correct omission from operating budget.	55.0
Total Budget Adjustments			133.5

MAUI ELECTRIC COMPANY, LIMITED
ADMINISTRATIVE AND GENERAL EXPENSES
Test Year 2007
($ Thousands)

MECO TOTAL

Account	Account Description	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Bud 2006	Bud 2007	Adjustments	TY 2007
ADMINISTATIVE										
920	ADMIN & GENL EXP - LABR	2,039.0	1,572.6	2,105.8	2,072.9	2,113.8	2,468.6	2,516.7	(339.8)	2,176.9
920L	ADMIN & GENL EXP - LABR - LANAI	0.3	-	1.6	0.3	1.0	-	-	-	-
920M	ADMIN & GENL EXP - LABR - MOLOKAI	19.1	14.1	12.0	14.4	13.5	12.4	11.5	-	11.5
	A&G SALARIES	2,058.4	1,586.9	2,119.4	2,087.6	2,128.3	2,481.0	2,528.2	(339.8)	2,188.4
921	ADMIN & GENL EXP - NLABR	839.6	474.6	513.8	599.9	631.6	(1,074.5)	905.4	(2.7)	902.7
921L	ADMIN & GENL EXP - NLABR - LANAI	0.2	-	1.0	-	-	-	-	-	-
921M	ADMIN & GENL EXP - NLABR - MOLOKAI	7.6	7.1	7.2	7.5	7.3	7.8	9.4	-	9.4
	OFFICE SUPPLIES & EXPENSES	847.4	481.7	522.0	607.4	638.9	(1,066.7)	914.8	(2.7)	912.1
922	ADMIN EXPENSES TRANSFERRED	(766.5)	(901.3)	(990.5)	(994.0)	(913.4)	(894.2)	(938.9)	(280.1)	(1,219.0)
	TOTAL ADMINISTRATIVE	2,139.3	1,167.3	1,650.9	1,701.0	1,853.8	520.1	2,504.1	(622.6)	1,881.5
OUTSIDE SERVICES										
923010	LEGAL SERVICES	22.2	46.9	6.0	7.0	7.5	27.4	20.1	-	20.1
923020	OTHER OUTSIDE SERVICES	25.2	27.4	24.0	3.6	27.9	-	88.1		88.1
923030	OTHER SERVICES - ASSOC CO	1,460.8	1,471.6	1,752.4	1,406.0	1,564.7	1,906.2	2,055.2	(180.3)	1,874.9
92303L	OTHER SERVICES - ASSOC CO - LANAI	-	-	-	-	0.8	-	-		-
92303M	OTHER SERVICES - ASSOC CO - MOLOKAI	-	-	-	-	0.8	-	-		-
	TOTAL OUTSIDE SERVICES	1,508.2	1,545.9	1,782.4	1,416.6	1,601.7	1,933.6	2,163.4	(180.3)	1,983.1
INSURANCE										
924	PROPERTY INSURANCE	340.2	481.4	648.5	668.7	1,349.0	713.3	750.3		750.3
925	INJURIES & DAMAGES	1,361.2	1,409.2	705.3	724.1	768.8	1,362.5	1,311.2		1,311.2
925M	INJURIES & DAMAGES - MOLOKAI	-	-	-	-	0.1	-	-	-	-
	TOTAL INSURANCE	1,701.4	1,890.6	1,353.8	1,392.8	2,117.9	2,075.8	2,061.5	-	2,061.5
EMPLOYEE BENEFITS										
926000	EMPL PENSIONS & BENEFITS	408.8	1,472.2	5,225.8	4,518.6	5,360.2	7,591.8	7,985.7	(65.3)	7,920.4
926010	EMPL BENEFITS - FLEX CREDITS	-	-	-	-	-	-	-	-	-
926020	EMPL BENEFITS - TRANSFERS	(68.4)	(426.1)	(1,526.0)	(1,482.6)	(1,626.2)	(2,065.4)	(2,237.4)	113.9	(2,123.5)
	TOTAL EMPLOYEE BENEFITS	340.4	1,046.1	3,699.8	3,036.0	3,734.0	5,526.4	5,748.3	48.6	5,796.9
MISCELLANEOUS										
928	REGULATORY COMMISSION EXPENSES	97.4	-	-	-	-	-	-	341.8	341.8
9301	INSTITUTN/GOODWILL ADVERT EXP	4.6	0.8	2.4	3.2	1.1	2.6	2.7	-	2.7
9302	MISCELLANEOUS GENERAL EXPENSES	394.0	609.5	521.8	460.4	631.5	556.0	790.4	(13.4)	777.0
931	RENT EXPENSE	-	-	-	6.1	5.6	5.8	6.0	-	6.0
9302L	MISC EXPENSES OTHER-LANAI	91.1	94.8	90.1	192.8	73.0	90.0	90.0	96.1	186.1
9302M	MISC EXPENSES OTHER-MOLOKAI	180.6	182.2	181.0	185.6	180.7	180.6	180.6	184.0	364.6
	TOTAL MISCELLANEOUS	767.7	887.3	795.3	848.1	891.9	835.2	1,069.7	608.5	1,678.2
MAINTENANCE OF GENERAL PLANT										
932	ADMIN AND GENL MAINTENANCE	125.3	148.1	194.2	157.8	147.4	184.6	114.4		114.4
932L	ADMIN AND GENL MAINTENANCE-LANAI	0.6	13.9	23.0	6.4	14.2	5.1	3.2	-	3.2
932M	ADMIN AND GENL MAINTENANCE-MOLOKAI	31.6	31.9	25.5	60.4	42.7	46.8	40.9	-	40.9
	TOTAL MAINTENANCE	157.5	193.9	242.7	224.6	204.3	236.5	158.5	-	158.5
TOTAL ADMINISTRATIVE & GENERAL		6,614.5	6,731.1	9,524.9	8,619.1	10,403.6	11,127.6	13,705.5	(145.8)	13,559.7

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MAUI ELECTRIC COMPANY, LIMITED
ADMINISTRATIVE AND GENERAL EXPENSES - MAUI DIVISION
Test Year 2007
($ Thousands)

Account	Account Description	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Bud 2006	Bud 2007	Adjustments	TY 2007
ADMINISTATIVE										
920	ADMIN & GENL EXP - LABR	2,039.0	1,572.8	2,105.8	2,072.9	2,113.8	2,468.6	2,516.7	(339.8)	2,176.9
921	ADMIN & GENL EXP - NLABR	839.6	474.6	513.8	599.9	631.6	(1,074.5)	905.4	(2.7)	902.7
922	ADMIN EXPENSES TRANSFERRED	(766.5)	(901.3)	(990.5)	(994.0)	(913.4)	(894.2)	(938.9)	(280.1)	(1,219.0)
	TOTAL ADMINISTRATIVE	2,112.1	1,146.1	1,629.1	1,678.8	1,832.0	499.9	2,483.2	(622.6)	1,860.6
OUTSIDE SERVICES										
923010	LEGAL SERVICES	22.2	46.9	6.0	7.0	7.5	27.4	20.1	-	20.1
923020	OTHER OUTSIDE SERVICES	25.2	27.4	24.0	3.6	27.9	-	88.1	-	88.1
923030	OTHER SERVICES - ASSOC CO	1,460.8	1,471.6	1,752.4	1,406.0	1,564.7	1,906.2	2,055.2	(180.3)	1,874.9
	TOTAL OUTSIDE SERVICES	1,508.2	1,545.9	1,782.4	1,416.6	1,600.1	1,933.6	2,163.4	(180.3)	1,983.1
INSURANCE										
924	PROPERTY INSURANCE	340.2	481.4	648.5	668.7	1,349.0	713.3	750.3	-	750.3
925	INJURIES & DAMAGES	1,361.2	1,409.2	705.3	724.1	768.8	1,362.5	1,311.2	-	1,311.2
	TOTAL INSURANCE	1,701.4	1,890.6	1,353.8	1,392.8	2,117.8	2,075.8	2,061.5	-	2,061.5
EMPLOYEE BENEFITS										
926000	EMPL PENSIONS & BENEFITS	408.8	1,472.2	5,225.8	4,518.6	5,360.2	7,591.8	7,985.7	(605.4)	7,380.3
926010	EMPL BENEFITS - FLEX CREDITS	-	-	-	-	-	-	-	-	-
926020	EMPL BENEFITS - TRANSFERS	(68.4)	(426.1)	(1,526.0)	(1,482.6)	(1,626.2)	(2,065.4)	(2,237.4)	259.6	(1,977.8)
	TOTAL EMPLOYEE BENEFITS	340.4	1,046.1	3,699.8	3,036.0	3,734.0	5,526.4	5,748.3	(345.8)	5,402.5
MISCELLANEOUS										
928	REGULATORY COMMISSION EXPENSES	97.4	-	-	-	-	-	-	341.8	341.8
9301	INSTITUTN/GOODWILL ADVERT EXP	4.6	0.8	2.4	3.2	1.1	2.8	2.7	-	2.7
9302	MISCELLANEOUS GENERAL EXPENSES	394.0	609.5	521.8	460.4	631.5	556.0	790.4	(13.4)	777.0
931	RENT EXPENSE	-	-	-	6.1	5.6	5.8	6.0	-	6.0
	TOTAL MISCELLANEOUS	496.0	610.3	524.2	469.7	638.2	564.6	799.1	328.4	1,127.5
MAINTENANCE OF GENENRAL PLANT										
932	ADMIN AND GENL MAINTENANCE	125.3	148.1	194.2	157.8	147.4	184.6	114.4	-	114.4
	TOTAL MAINTENANCE	125.3	148.1	194.2	157.8	147.4	184.6	114.4	-	114.4
TOTAL ADMINISTRATIVE & GENERAL		6,283.4	6,387.1	9,183.5	8,151.7	10,069.5	10,784.9	13,369.9	(820.3)	12,549.6

MAUI ELECTRIC COMPANY, LIMITED
ADMINISTRATIVE AND GENERAL EXPENSES - LANAI DIVISION
Test Year 2007
($ Thousands)

Account	Account Description	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Bud 2006	Bud 2007	Adjustments	TY 2007
ADMINISTATIVE										
920L	ADMIN & GENL EXP - LABR - LANAI	0.3	-	1.6	0.3	1.0	-	-	-	-
921L	ADMIN & GENL EXP - NLABR - LANAI	0.2	-	1.0	-	-	-	-	-	-
	TOTAL ADMINISTRATIVE	0.5	-	2.6	0.3	1.0	-	-	-	-
OUTSIDE SERVICES										
92303L	OTHER SERVICES - ASSOC CO - LANAI	-	-	-	-	0.8	-	-		-
	TOTAL OUTSIDE SERVICES	-	-	-	-	0.8	-	-	-	-
EMPLOYEE BENEFITS										
926000	EMPL PENSIONS & BENEFITS	-	-	-	-	-	-	-	211.4	211.4
926010	EMPL BENEFITS - FLEX CREDITS	-	-	-	-	-	-	-	-	-
926020	EMPL BENEFITS - TRANSFERS	-	-	-	-	-	-	-	(57.0)	(57.0)
	TOTAL EMPLOYEE BENEFITS	-	-	-	-	-	-	-	154.4	154.4
MISCELLANEOUS										
9302L	MISC EXPENSES OTHER-LANAI	91.1	94.8	90.1	192.8	73.0	90.0	90.0	96.1	186.1
	TOTAL MISCELLANEOUS	91.1	94.8	90.1	192.8	73.0	90.0	90.0	96.1	186.1
MAINTENANCE OF GENENRAL PLANT										
932L	ADMIN AND GENL MAINTENANCE-LANAI	0.6	13.9	23.0	6.4	14.2	5.1	3.2	-	3.2
	TOTAL MAINTENANCE	0.6	13.9	23.0	6.4	14.2	5.1	3.2	-	3.2
TOTAL ADMINISTRATIVE & GENERAL		92.2	108.7	115.7	199.5	89.0	95.1	93.2	250.5	343.7

MAUI ELECTRIC COMPANY, LIMITED
ADMINISTRATIVE AND GENERAL EXPENSES - MOLOKAI DIVISION
Test Year 2007
($ Thousands)

Account	Account Description	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Bud 2006	Bud 2007	Adjustments	TY 2007
ADMINISTATIVE										
920M	ADMIN & GENL EXP - LABR - MOLOKAI	19.1	14.1	12.0	14.4	13.5	12.4	11.5	-	11.5
921M	ADMIN & GENL EXP - NLABR - MOLOKAI	7.6	7.1	7.2	7.5	7.3	7.8	9.4	-	9.4
	TOTAL ADMINISTRATIVE	26.7	21.2	19.2	21.9	20.8	20.2	20.9	-	20.9
OUTSIDE SERVICES										
92303M	OTHER SERVICES - ASSOC CO - MOLOKAI	-	-	-	-	0.8	-	-		-
	TOTAL OUTSIDE SERVICES	-	-	-	-	0.8	-	-	-	-
INSURANCE										
925M	INJURIES & DAMAGES - MOLOKAI	-	-	-	-	0.1	-	-	-	-
	TOTAL INSURANCE	-	-	-	-	0.1	-	-	-	-
EMPLOYEE BENEFITS										
926000	EMPL PENSIONS & BENEFITS	-	-	-	-	-	-	-	328.7	328.7
926010	EMPL BENEFITS - FLEX CREDITS	-	-	-	-	-	-	-	-	-
926020	EMPL BENEFITS - TRANSFERS	-	-	-	-	-	-	-	(88.7)	(88.7)
	TOTAL EMPLOYEE BENEFITS	-	-	-	-	-	-	-	240.0	240.0
MISCELLANEOUS										
9302M	MISC EXPENSES OTHER-MOLOKAI	180.6	182.2	181.0	185.6	180.7	180.6	180.6	184.0	364.6
	TOTAL MISCELLANEOUS	180.6	182.2	181.0	185.6	180.7	180.6	180.6	184.0	364.6
MAINTENANCE OF GENENRAL PLANT										
932M	ADMIN AND GENL MAINTENANCE-MOLOKAI	31.6	31.9	25.5	60.4	42.7	46.8	40.9	-	40.9
	TOTAL MAINTENANCE	31.6	31.9	25.5	60.4	42.7	46.8	40.9	-	40.9
TOTAL ADMINISTRATIVE & GENERAL		238.9	235.3	225.7	267.9	245.1	247.6	242.4	424.0	666.4

Maui Electric Company, Ltd.
Significant Variances
2006 Recorded vs 2007 O&M Expense Budget

	Account	Codeblock	2006 Recd	2007 O&M Expense Budget	Inc/(Dec)	%Inc/(Dec)	Explanation
1	920	M8M723MAUNENMAZZZZZ900	279,773	433,476	153,703	55%	Increase is primarily due to increase for executive incentive compensation programs. A $339,800 rate case adjustment was made to exclude the costs for such programs from the 2007 test year estimate. See discussion for account no. 920 at MECO T-9 for further details.
3	920	MAB735MAUNEM0000798150	8,684	62,283	53,599	617%	Increase for labor hours for work on the instant rate case proceeding for Fiscal Administrator, Operations Analyst, Operations Administrator and Capital Budget Analyst.
4	920	MWI898MAUNENMDZZZZZ150	200,089	143,524	(56,565)	-28%	Costs for this line item are for Information Services Division labor. The labor hours for this activity code 898 included in the 2007 Operating Budget were inadvertantly understated, while labor hours budgeted for other activity codes (specifically activities 840, 843, 891, 897 and 899) were overstated by the same amount. However, in total, the labor hours and dollars included in the 2007 Operating Budget for this Division for Account No. 920 are correct.
5	923030	MAA720MAUNENMAZZZZZ550	48,020	208,288	160,268	334%	Increase primarily due to $135,000 included in 2007 operating budget for UNIX migration. The remainder of the increase is due to forecast for higher inter-company billings from HECO for Ellipse system administration.
6	923030	MCA736MAUNEM0000530550	55,806	-	(55,806)	-100%	Costs for this line item are for the 2005 class load study. No costs for this study were included in the 2007 Operating Budget because studies are not performed annually.
7	923030	MWI891MAUNENMDZZZZZ550	4,316	102,048	97,732	2264%	The increase is due primarily to (a) Microsoft Enterprise agreement costs of $70,000 included in the 2007 Operating Budget but recorded under expense element 501 (outside services) in 2006; and (b) $29,600 for HECO Helpdesk services included in the 2007 Operating Budget but recorded uinder expense element 501 (outside services) in 2006.
8	924	MAA951MAUNENMAZZZZZ900	588,869	713,614	124,745	21%	Costs for this line item are for property and boiler and machinery insurance premiums. As noted in the T-9 testimony for account no. 924, the 2007 Operating Budget included estimates for increased property and boiler and machinery insurance premiums due to the hardening of insurance markets following Hurricane Katrina.
9	924	MAG951MAUNENMAZZZZZ900	169,209	-	(169,209)	-100%	Costs for this line item are for OCARS write-offs. The 2007 Operating Budget included an estimate of $36,678 for these kinds of costs, but included that estimate under a different codeblock account, MAA951MAUNENMAZZZZZ501.
10	925	M8M953MAUNENMAZZZZZ530	(484,438)	-	484,438	100%	Costs for this line item are for changes in workers' compensation loss reserve. Increase because the 2006 recorded amount was a net credit; the 2007 operating budget assumes no change in the loss reserve.
11	925	MAA950MAUNENMAZZZZZ501	50,000	-	(50,000)	-100%	The 2006 recorded costs for this line item were to increase the reserve for general liability claims. No amounts were included in the 2007 Operating Budget.
12	925	MSP953MAUNENMSZZZZZ530	175,846	330,000	154,154	88%	Costs for this line item are for workers compensation costs. The increase in 2007 is primarily because 2006 expenses were unusually low compared to prior years. The 2007 Budget estimate was based on a 5-year average of costs of $284,300, plus anticipated costs for indemnity settlements, legal fees, medical expenses and disfigurement awards over and above amounts reflected in the 5-year historical average.
13	926000	MAA779MAUNENMAZZZZZ509	4,516,275	5,290,996	774,721	-17%	Increase reflects change in assumptions for pension and OPEB costs.

Maui Electric Company, Ltd.
Significant Variances
2006 Recorded vs 2007 O&M Expense Budget

	Account	Codeblock	2006 Recd	2007 O&M Expense Budget	Inc/(Dec)	% Inc/(Dec)	Explanation
14	926000	MSP778MAUNEM0000749550	13,699	157,664	143,965	1051%	Increase is for estimated inter-company billing charges from HECO for the HR Suites project.
15	926000	MSP778MAUNENMSZZZZZ509	2,242,286	2,554,038	311,752	14%	The increase is due to higher estimated benefits costs due to higher projected employee counts and higher projected premium rates.
16	926000	MSP778MAUNENMSZZZZZ900	(255,665)	(342,662)	(86,997)	34%	This line item is for benefits flex credits. The 2007 operating budget for flex credits is a larger credit than the credit amount recorded for 2006 due to higher estimated employee counts and higher benefits costs.
17	9302	MAA730MAUNENMAZZZZZ900	527	222,132	221,605	42050%	This line item is primarily for EPRI membership dues. The increase reflects that MECO was not a member in 2006, but has included costs in its 2007 Operating Budget for 2007 membership dues. See MECO-919 and the discussion in MECO T-9 for further detail.
18	9302	MAA749MAUNENMAZZZZZ515	13,856	83,907	70,051	506%	This line item is for company memberships. The increase reflects that MECO was not a member of EEI in 2006, but has included costs in its 2007 Operating Budget for 2007 membership dues. See MECO-917 for further detail.
19	9302	MCN731MAUNENMCZZZZZ501	(28,119)	134,500	162,619	578%	The increase is due to net credits for research and development project costs in 2006, while the 2007 operating budget includes costs for a solar air conditioning project. See MECO-918 and the discussion in MECO T-9 for further detail.
20	9302	MCZ731MAUNENMCZZZZZ501	(38,056)	110,000	148,056	389%	The increase is due to a credit recorded for 2006 compared to estimated research and development proejct cost estimates included in the 2007 operating budget. See MECO-918 and the discussion in MECO T-9 for further detail.
21	9302	MCZ731MAUNENMCZZZZZ503	46,419	-	(46,419)	-100%	The 2006 recorded costs for this line item were primarily for the Hawaii Energy Test lab. No amounts were included in the 2007 Operating Budget as this project was completed in 2006.

Maui Electric Company, Ltd.
Significant Variances
2005 recorded vs 2007 O&M Expense Budget

	Account	Codeblock	2005 Recd	2007 O&M Expense Budget	Inc/(Dec)	%Inc/(Dec)	Explanation
1	920	M8M723MAUNENMAZZZZZ900	275.562	433.476	157.914	57%	Increase is primarily due to increase for executive incentive compensation programs. A $339.800 rate case adjustment was made to exclude the costs for such programs from the 2007 test year estimate. See discussion for account no. 920 at MECO T-9 for further details.
2	920	MAA735MAUNEM0000798150	-	50.564	50.564	100%	Increase for labor hours for work on the instant rate case proceeding for Accounting Department Manager, Accounting Administrator and Accountant.
3	920	MAB735MAUNEM0000798150	-	62.283	62.283	100%	Increase for labor hours for work on the instant rate case proceeding for Fiscal Administrator, Operations Analyst, Operations Administrator and Capital Budget Analyst.
4	920	MAX817MAUNENMAZZZZZ150	87.145	167.698	80.553	92%	Increase primarily due to higher estimated labor hours for property accounting activity due primarily to addition of second utility plant clerk in April 2006.
5	920	MSA735MAUNEM0000798150	-	50.174	50.174	100%	Increase for labor hours for work on the instant rate case proceeding for Administration Department Manager and Administration Analyst.
6	920	MWI897MAUNENMDZZZZZ150	41.575	103.896	62.321	150%	Increase due to addition of second GIS Administrator in September 2006.
7	921	MAA836MAUNENMAZZZZZ501	99.374	-	(99.374)	-100%	Decrease because, as explained in further detail in testimony section T-9 for account no. 923.02, the 2005 recorded amounts were errouneously charged to account 921. See below for explanation for the codeblock account MAA761MAUNENMAZZZZZ501, NARUC account no. 923 for further details.
8	921	MWI896MAUNEM0000550501	(49.400)	-	49.400	-100%	Increase a result of credit received in 2005 for costs paid in December 2004. No amounts budgeted for 2007.
9	923	MAA720MAUNENMAZZZZZ550	46.633	208.288	161.655	347%	Increase primarily due to $135.000 included in 2007 operating budget for UNIX migration. The remainder of the increase due to forecast for higher ICBs for Ellipse system administration.
10	923	MAA760MAUNENMAZZZZZ550	799	51.158	50.359	6303%	Increase due primarily to minimal charges recorded for 2005 as a result of HECO Internal Audit staff being assigned to other non-MECO internal audit work such as SOX 404 compliance work or performing internal audits for one of the other utilities.
11	923	MAA761MAUNENMAZZZZZ501	27.916	88.080	60.164	216%	Increase primarily due to certain 2005 recorded amounts erroneously charged to NARUC account no. 921 (codeblock MAA836MAUNENMAZZZZZ501). See above and testimony discussion of account no. 923.02 for further detail.
12	923	MAA818MAUNENMAZZZZZ550	228.730	290.674	61.944	27%	Increase due to higher mainframe processing costs for 2007.
13	923	MAA825MAUNENMAZZZZZ550	(18.087)	62.693	80.780	447%	Increase primarily due to: (1) $48.000 credits recorded in 2005 for bank fees compared to none for 2007 operating budget; (2) $15,000 increase for commercial paper rating fees due to higher projected short term borrowing levels; and (3) $13.000 increase for line of credit fees due to higher projected short term borrowing levels.
14	923	MAA836MAUNENMAZZZZZ550	143.218	75.966	(67.252)	-47%	Decrease due primarily to 2005 recorded amounts include $63.100 for ICB for purchase of SOX 404 software.
15	923	MAA843MAUNENMAZZZZZ550	111.753	178.674	66.921	60%	Increase due to: (1) $35.000 increase for HECO Accounts Payable for processing invoices and generating accounts payable checks; and (2) $29.000 increase for HECO Purchasing for clerical support to reconcile invoice discrepancies.
16	923	MAB701MAUNENMAZZZZZ550	59.893	-	(59.893)	-100%	Decrease is due to intercompany charges in 2005 for purchase of UII Planner software. The 2007 operating budget includes costs for UII Planner maintenance under RA code MAA.

Maui Electric Company, Ltd.
Significant Variances
2005 recorded vs 2007 O&M Expense Budget

	Account	Codeblock	2005 Recd	2007 O&M Expense Budget	Inc/(Dec)	% Inc/(Dec)	Explanation
17	923	MWI891MAUNENMDZZZZZ550	15,816	102,048	86,232	545%	Costs for this line item are primarily for Microsoft Enterprise software license. Increase due largely because the 2007 operating budget includes $70,000 for a 4-year license renewal. The 2007 test year estimate includes a normalization adjustment of -$52,500 to remove three-fourths of the budgeted amount.
18	924	MAA951MAUNENMAZZZZZ900	1,327,051	713,614	(613,437)	-46%	Decrease resulting from (1) $750,000 accrual in December 2005 for generting unit M13 engine failure property insurance deductible; partly offset by (2) increase of $136,600 in property insurance amortization from $577,000 in 2005 to $713,600 in 2007
19	925	M8M953MAUNENMAZZZZZ530	(261,378)	-	261,378	-100%	Costs for this line item are for changes in workers' compensation loss reserve. Increase becase the 2005 recorded amount is a net credit; none for 2007 operating budget.
20	925	MAA950MAUNENMAZZZZZ900	391,017	437,100	46,083	12%	Increase due to $50,000 increase in general liability insurance premium.
21	925	MSP953MAUNENMSZZZZZ530	204,775	330,000	125,225	61%	Increase due primarily to higher anticipated workers' compensation costs for 2007.
22	926	MAA779MAUNENMAZZZZZ509	3,122,487	5,290,996	2,168,509	69%	Increase reflects change in assumptions for pension and OPEB costs.
23	926	MSP778MAUNEM0000749550	-	157,664	157,664	100%	Increase is for estimated ICB charges for the HR Suites project.
24	926	MSP778MAUNENMSZZZZZ509	2,229,473	2,554,038	324,565	15%	The increase is due to higher estimated benefits cost due to higher projected employee count and higher projected premium rates.
25	926	MSP778MAUNENMSZZZZZ900	(239,311)	(342,662)	(103,351)	43%	This line item is for benefits flex credits. The 2007 operating budget for flex credits is a larger credit than the credit amount recorded for 2005 due to higher estimated employee counts and higher benefits costs.
26	9302	MCN731MAUNENMCZZZZZ501	-	134,500	134,500	100%	The increase is due to no related R&D project costs incurred for 2005, while the 2007 operating budget includes costs for a solar air conditioning project.
27	9302	MCZ731MAUNENMCZZZZZ501	53,040	110,000	56,960	107%	The increase is due to estimated higher spending for R&D proejcts in 2007 operating budget.
28	9302	MWA731MAUNENMWZZZZZ550	79,013	2,500	(76,513)	-97%	Decrease due to 2005 recorded costs included non-recurring costs for electronic shock absorber.
29	9302L	MCZ731MALNENMCZZZZZ501	(89,051)	-	89,051	-100%	Increase due to EPRI refund credit in 2005 erroneously coded to expense element (EE) 501, while most of actual costs recorded to EE 505. See explanation for EE 505 below.
30	9302L	MCZ731MALNENMCZZZZZ505	71,395	-	(71,395)	-100%	Decrease due to EPRI refund credit in 2005 erroneously coded to expense element (EE) 501, while most of actual costs recorded to EE 505. See explanation for EE 501 above.

MAUI ELECTRIC COMPANY, LTD.
EFFECT OF GENERAL PAY INCREASE

RELATIVE WAGE RATES

	2005		2006		2007	
	BU	NIBU	BU	NIBU	BU	NIBU
JAN	1.0000	1.0000	1.0287	1.0375	1.0718	1.0764
FEB	1.0000	1.0000	1.0287	1.0375	1.0718	1.0764
MAR	1.0000	1.0000	1.0287	1.0375	1.0718	1.0764
APR	1.0000	1.0000	1.0287	1.0375	1.0718	1.0764
MAY	1.0144	1.0350	1.0431	1.0738	1.0718	1.1141
JUN	1.0144	1.0350	1.0431	1.0738	1.0718	1.1141
JUL	1.0144	1.0350	1.0431	1.0738	1.0718	1.1141
AUG	1.0144	1.0350	1.0431	1.0738	1.0718	1.1141
SEP	1.0144	1.0375	1.0431	1.0764	1.0718	1.1168
OCT	1.0144	1.0375	1.0431	1.0764	1.0718	1.1168
NOV	1.0287	1.0375	1.0718	1.0764	1.1093	1.1168
DEC	1.0287	1.0375	1.0718	1.0764	1.1093	1.1168
TOTAL	12.1438	12.2900	12.5170	12.7508	12.9366	13.2292
	(A)	(B)	(C)	(D)	(E)	(F)

						BU		NIBU	
	Percentage increase 2007 over 2005:								
(G)	BU =	(E-A)/A	NIBU =	(F-B)/B		6.53%		7.64%	
(H)	2005 Recorded Account 920 Labor ($000) excluding PIC					232	+	1,621	= 1,853
(I)	Increase in 2007 labor due to general pay increase ($000) (G x H)					15	+	124	= 139

Assumptions:

BU Increases

5/1/2005 1.5% of 10/31/02 rates
11/1/2005 1.5% of 10/31/02 rates
5/1/2006 1.5% of 10/31/02 rates
11/1/2006 3.0% of 10/31/02 rates
11/1/2007 3.5% of 10/31/07 rates

NIBU Increases

5/1/2006 3.5% of 4/30/2006 rates
9/1/2006 .25% of 4/30/2006 rates
5/1/2007 3.5% of 4/30/2007 rates
9/1/2007 .25% of 4/30/2007 rates

MAUI ELECTRIC COMPANY, LIMITED

Administrative Expenses Transferred
Account 922

Test Year 2007

Transfers to construction and others	669,000	a
Transfers to Lanai & Molokai Divisions	550,000	b
Total Administrative Expenses Transferred	1,219,000	

a See MECO-907

b See MECO-908

MAUI ELECTRIC COMPANY, LTD.
ADMINISTRATIVE EXPENSES TRANSFERRED TO CONSTRUCTION
ACCOUNT 922

				(000)	
Cost Pool:					
Labor			$ 474		
Transfer Rate per updated KPMG study		X	56%		
				$ 265	
NPW				42	
Payroll Taxes				23	
Emp Ben				112	
Nonlabor-Acct. 921.00			$ 832		
Transfer Rate per updated KPMG study		X	15%		
				$ 125	
Stores				14	
	A			$ 581	
Cost Base:					
Capital Labor Hours			112		
Clearings to Capital		+	46		
	B			$ 158	
Corporate Admin rate per hour	C = A ÷ B			$ 3.67	
Total Productive hours	D	X		678	
Administrative Expenses Transferred - based on total productive hours	E = C X D				$ 2,490
Reversal of Corporate Admin on-cost charged to O&M		+			(1,821)
Subtotal					669

MAUI ELECTRIC COMPANY, LTD.
ADMINISTRATIVE EXPENSES TRANSFERRED TO CONSTRUCTION
ACCOUNT 922

Subtotal from page 1				669
Administrative Expenses Transfer Adjustments and Normalizations:				
Rate-making adjustment to exclude incentive program costs from cost pool		8		
Normalization adjustment for depreciation study costs		(11)		
Normalization adjustment for interisland travel for union contract negotiations		6		
			3	
Transfer Rate per updated KPMG study	X		19%	
				1
Administrative Expenses Transferred to Construction				$ 669

MAUI ELECTRIC COMPANY, LIMITED
Account 922
Administrative Expenses Transferred to Lanai & Molokai Divisions
$ Thousands

	2007 Operating Budget	Adjustment	2007 Test Year Estimate
A & G Allocation to Molokai	(180.0)	(184.0)	(364.0)
A & G Allocation to Lanai	(90.0)	(96.1)	(186.1)
Total Account 922.02	(270.0)	(280.1)	(550.1)

Molokai and Lanai A & G Allocation		Molokai	Lanai
Forecast # of customers -	65,441 Total	3,141	1,606
% of total		4.80%	2.45%

Test Year expenses to allocate

Maui Division A&G Expenses (see MECO-901, page 5)	12,549.6
Adjustment for expenses already allocated to or budget for divisions:	
Employee Benefits (Acct 926)	(5,402.5)
Maintenance (Acct 932)	(114.4)
Adjustment to reverse Lanai & Molokai A&G allocation adjustment	280.1
Adjustment to reverse Lanai & Molokai A&G allocation in 2007 Pillar Budget	270.0
Total expenses to allocate	7,582.8

	Molokai	Lanai
A & G Allocation	364.0	186.1

MAUI ELECTRIC COMPANY, LIMITED
ACCOUNT 923.01 OUTSIDE SERVICES - LEGAL
TEST YEAR 2007

Activity		Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Operating Budget 2006	Operating Budget 2007	Adjust.	Test Year 2007
618	Manage Past Due Accounts	-	-	-	-	487	1,200	600	-	600
738	Prepare & Support Other PUC Regulatory Filings	256	-	-	-	635	1,200	500	-	500
765	Develop, Manage & Admin Employ Pol, Prac & Proced	9,601	41,666	391	-	-	10,000	10,000	-	10,000
928	Process Easements	5,000	4,583	5,000	5,417	5,000	5,004	5,004		5,004
960	Manage Service & Process Documentation	3,101	622	648	1,379	1,365	4,000	4,000	-	4,000
	Others, net	4,273	-	-	241	-	6,000	-	-	-
Total Account 923.01		22,231	46,871	6,039	7,037	7,487	27,404	20,104	-	20,104

MAUI ELECTRIC COMPANY, LIMITED
ACCOUNT 923.02 OUTSIDE SERVICES - OTHER
TEST YEAR 2007

	Actual 2001	Actual 2002	Actual 2003	Actual 2004 *	Actual 2005 *	Operating Budget 2006 *	Operating Budget 2007	Adjust.	Test Year 2007
KPMG	25,200	27,408	24,000	3,567	27,916	-	88,080	-	88,080
					-	-	-		-
Total 923.02	25,200	27,408	24,000	3,567	27,916	-	88,080	-	88,080

* Note: Certain fees paid to KPMG were erroneously recorded to Account 921 during the years 2004, 2005 and 2006, and were erroneously forecasted to Account 921 for 2006 as well.

MAUI ELECTRIC CO., LTD.
Outside Services - Associated Companies
Account 923.03

Acty	Type Of Service	2001	2002	2003	2004	2005	2006 Operating Budget	2007 Operating Budget	Adjust	Norm Adjust	2007 Test Year Estimate
700	Develop & Administer Business Plans	342,947	416,104	526,461	611,324	600,821	562,064	592,252	(120,178)		472,074
701	Develop & Manage Forecasts	6,569	728	12,091	17,197	70,664	17,165	19,462			19,462
710	Develop & Manage Forecasts-Sales & Load	4,779	1,729	12,361	17,342	18,130	9,576	4,938			4,938
720	Improve Business Processes	322,046	302,010	341,708	138,211	146,258	189,696	269,354			269,354
721	Develop, Measure & Analyze Org Performance	3,046	0	0	666	1,010	3,361	2,898			2,898
722	Design, Deploy & Assess Org Develop Strategies	0	0	0	624	0	3,462	2,317			2,317
723	Manage & Admin Incentive & Recog Prog	9,125	3,445	3,459	3,971	3,038	3,580	3,907			3,907
735	Prepare & Support Rate Case Filings	0	0	0	0	0	0	0			0
736	Perf Pricing Analyses & Dev Pricing Prop	15,789	25,626	33,101	15,889	26,040	67,820	16,974			16,974
737	Prep & Supp Cost Recov& Rate Adj Filings	2,230	2,211	30,065	5,154	4,044	3,000	12,491			12,491
738	Prepare & Support Othr PUC Reg Filings	9,985	15,643	22,889	28,443	12,792	22,704	21,026			21,026
739	Prep & Support PUC Cap Project Filings	0	0	3,503	1,163	209	2,304	1,339			1,339
745	Maintain Rel w/Legis & Govt Agencies	5,894	8,515	6,309	7,264	11,681	12,151	20,942			20,942
752	Maintain Relations with Media	508	0	2,430	0	179	5,891	6,244			6,244
753	Maintain Relations with Community	0	0	0	0	51	1,491	1,656			1,656
756	Maintain Relations with Investors	74	390	19	257	0	2,556	3,050			3,050
760	Coord, Conduct & Assist w/Audit-Internal	15,075	3,227	26,828	329	799	34,464	51,158			51,158
761	Coord, Conduct & Assist w/Audit-External	131	4,669	409	64	558	4,251	4,854			4,854
765	Dev, Mnge & Admin Empl Pol,Prac & Proced	707	870	872	1,236	1,613	3,619	5,184			5,184
766	Maintain Employee Records	1,895	1,210	1,611	2,420	2,746	6,926	7,032			7,032
767	Develop, Manage & Admin Recruit Policies, Practices & Procedures	106	0	0	32	0	0	56			56

MAUI ELECTRIC CO., LTD.
Outside Services - Associated Companies
Account 923.03

Acty	Type Of Service	2001	2002	2003	2004	2005	2006 Operating Budget	2007 Operating Budget	Adjust	Norm Adjust	2007 Test Year Estimate
775	Dev,Mnge& Admin Empt Comp Pol,Prac& Proc	20,752	9,127	17,250	22,141	16,325	28,814	33,212			33,212
777	Process Payroll	3,390	1,174	768	2,880	1,848	13,580	11,886			11,886
788	Conduct Employee Training	25,207	(1)	0	0	1,127	428	454			454
805	Manage BU & Othr Labor Agreements	416	327	16,492	1,768	2,132	6,952	27,662		(8,593)	19,069
807	Manage & Provide Companywide Emp Comm	4,682	7,932	7,679	7,455	8,510	8,532	8,644			8,644
815	Develop & Admin Acctg Policies & Proced	0	88	330	976	38	1,440	6,610			6,610
817	Maintain Fixed Asset Records	8,947	7,707	45,320	7,133	14,894	21,591	27,496			27,496
818	Maintain G/L & Subledgers & Stat Info	265,369	205,020	120,627	154,390	228,730	252,300	290,674			290,674
819	Administer Tax Returns & Reports	197,795	208,951	96,000	(128,510)	45	0	0			0
825	Manage Cash	(12,688)	34,488	36,850	35,838	(18,087)	82,997	63,329			63,329
827	Perform Economic/Financial Analysis	92	3,713	5,288	227	230	1,920	2,230			2,230
835	Prep & File Fin Rpts/Stat Info-Int	723	2,942	5,424	5,975	6,293	8,491	3,958			3,958
836	Prep & File Fin Rpts/Stat Info-Ext	8,427	4,941	10,870	225,650	143,218	67,500	75,966	1,000		76,966
842	Order Materials, Eq, Supplies & Svcs	20,095	13,260	26,570	18,996	37,654	45,396	50,728			50,728
843	Process Invoices & Other Payments	57,725	83,421	120,821	115,955	111,753	153,380	178,674			178,674
844	Prep & Mnge Contracts for Svcs & Mat	0	341	3,633	1,029	0	17,820	24,111			24,111
891	Maintain Existing Computer Applications	56,722	33,020	140,493	8,068	15,816	135,402	102,048		(52,500)	49,548
899	Maintain Applications (Inactive eff. 9/1/01)	2,564	0	0	0	0	0	0			0
901	Provide IT Customer Assistance	0	0	0	0	0	0	0			0

MAUI ELECTRIC CO., LTD.
Outside Services - Associated Companies
Account 923.03

Acty	Type Of Service	2001	2002	2003	2004	2005	2006 Operating Budget	2007 Operating Budget	Adjust	Norm Adjust	2007 Test Year Estimate
916	Operate System & Equip-Telecommunications	25,116	27,156	25,966	25,116	25,116	37,358	0			0
926	Manage Owned, Leased & Jointly Owned Property	1,429	0	0	0	0	0	0			0
928	Process Easements	223	618	408	807	602	4,194	3,167			3,167
950	*Provide & Mnge Risk Mgmt Svcs-Liability*	*11,882*	*10,277*	*13,052*	*15,668*	*14,481*	*28,452*	*35,120*			*35,120*
951	Provide & Mnge Risk Mgmt Svcs-Property	9,549	11,807	14,192	15,615	36,497	16,440	41,858			41,858
953	Provide & Manage Risk Management Services-Workers Comp	1,136	3,136	3,067	3,236	5,030	2,527	5,081			5,081
960	Manage Service & Process Documentation	10,081	15,546	17,155	13,959	11,850	10,488	11,196			11,196
961	Conduct Legal Due Diligence	216	267	0	0	0	480	0			0
965	Provide Records Management Services	0	0	0	0	0	3,587	3,997			3,997
	Total Associated Companies Services (Includes HEI)	1,460,756	1,471,635	1,752,371	1,405,958	1,564,735	1,906,150	2,055,235	(119,178)	(61,093)	1,874,964

2007 HEI Charges to MECO
Excluding incentive compensation

		2005 Recorded	2006 Estimate Before Adjustment and Escalation	Adjustments	2006 Adjusted Estimate Before Escalation	2.5% Escalation	(See MECO-WP-904, Pages 1 - 5) 2007 Estimate (2)
ACC	ACCOUNTING	3,970.34	4,165.37	0.00	4,165.37	104.14	4,269.51
ADM	ADMINISTRATIVE	371.82	383.35	0.00	383.35	9.58	392.93
ANN	ANNUAL MEETING	3,270.98	3,372.38	0.00	3,372.38	84.31	3,456.69
AUD	AUDITS	117.26	120.89	0.00	120.89	3.02	123.91
BOD	BOARD OF DIRECTORS MEETINGS	8,886.80	9,162.29	0.00	9,162.29	229.06	9,391.35
CON	CONSULTING	4,537.35	5,947.55	2,973.78	8,921.33	223.03	9,144.36
HUM	HUMAN RESOURCES	8,522.24	2,706.67	292.95	2,999.62	74.99	3,074.61
INV	INVESTOR RELATIONS	67,965.65	70,422.42	(105.30)	70,317.12	1,757.94	72,075.06
PEN	PENSION PLAN	24,560.50	25,671.64	(199.80)	25,471.84	636.81	26,108.65
RPT	REPORTING	157,772.57	159,712.37	278.40	159,990.77	3,999.77	163,990.54
STO	STOCK TRANSFER ACTIVITIES	88,552.70	98,437.14	(8,061.38)	90,375.76	2,259.39	92,635.15
TAX	TAX	67,323.97	79,076.25	12,114.23	91,190.48	2,279.78	93,470.26
	Total	435,852.18	459,178.32	7,292.88	466,471.20	11,661.82	478,133.02
	Less: HEIRS Administrative Expense						(6,058.81)
							472,074.21

MAUI ELECTRIC CO., LTD.
Insurance Premium, Absorbed Losses and Safety Expenses ($000s)

Type of Expense	2001 Recorded	* Change * Percent	2002 Recorded	* Change * Percent	2003 Recorded	* Change * Percent	2004 Recorded	* Change * Percent	2005 Recorded	* Change * Percent	2006 Op Budget	* Change * Percent	2007 Op Budget	Budget Adjust-ments	2007 Test Year Estimate
ACCOUNT 924.00, PROPERTY															
Labor	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0	0.0
Non-Labor															
Premiums	261.7	73.0%	452.8	40.3%	635.1	-7.9%	585.1	-1.4%	577.1	23.6%	713.3	0.0%	713.6	0.0	713.6
Reserve Accrual & Absorbed Los	78.5	-63.6%	28.6	-53.1%	13.4	523.9%	83.6	823.3%	771.9	-100.0%	0.0	n/a	36.7	0.0	36.7
Subtotal	340.2	41.5%	481.4	34.7%	648.5	3.1%	668.7	101.7%	1349.0	-47.1%	713.3	5.2%	750.3	0.0	750.3
Total Account 924	340.2	41.5%	481.4	34.7%	648.5	3.1%	668.7	101.7%	1349.0	-47.1%	713.3	5.2%	750.3	0.0	750.3
ACCOUNT 925.01, INJURIES & DAMAGES - EMPLOYEE															
Labor															
Labor - Workers' Compensation	32.9	-48.0%	40.5	52.3%	35.2	-20.3%	33.1	-34.3%	30.1	73.0%	45.9	-31.2%	36.4	0.0	36.4
Labor - Safety Program	126.5	-13.7%	109.2	2.4%	111.8	24.6%	139.3	-3.2%	134.8	10.7%	161.6	57.1%	163.9	0.0	163.9
Subtotal	159.4	-6.1%	149.7	-1.8%	147.0	17.3%	172.4	-4.4%	164.9	25.8%	207.5	-3.5%	200.3	0.0	200.3
Non Labor															
Wage Benefit	70.7	-81.0%	13.4	250.0%	46.9	-31.1%	32.3	-60.1%	12.9	210.9%	40.1	-62.6%	15.0	0	15.0
Premium	33.8	126.0%	76.4	11.9%	85.5	-28.3%	61.3	-24.3%	46.4	70.7%	79.2	5.4%	83.5	0.0	83.5
Employee Claims	505.1	68.9%	853.2	-92.2%	66.7	-238.4%	(92.3)	69.3%	(28.3)	1336.0%	349.8	-0.3%	348.8	0.0	348.8
Safety and Security Program	78.6	6.6%	83.8	-12.5%	73.3	32.7%	97.3	6.7%	103.8	19.5%	124.0	-7.8%	114.3	0.0	114.3
Subtotal	688.2	49.2%	1026.8	-73.5%	272.4	-63.8%	98.6	36.7%	134.8	340.0%	593.1	-5.3%	561.6	0.0	561.6
Total 925.01	847.6	38.8%	1176.5	-64.4%	419.4	-35.4%	271.0	10.6%	299.7	167.1%	800.6	-4.8%	761.9	0.0	761.9
ACCOUNT 925.02, INJURIES & DAMAGES - PUBLIC															
Labor	22.3	-48.9%	11.4	83.3%	20.9	67.5%	35.0	6.6%	37.3	57.4%	51.3	42.0%	53.1	0.0	53.1
Non Labor															
Premium	171.2	4.0%	178.0	36.4%	242.8	46.8%	356.4	9.7%	390.9	6.6%	416.7	4.9%	437.1	0.0	437.1
Other Public Claims	320.1	-86.5%	43.3	-48.7%	22.2	177.9%	61.7	-33.5%	41.0	129.3%	94.0	-37.1%	59.1	0.0	59.1
Subtotal	491.3	-55.0%	221.3	19.7%	265.0	57.8%	418.1	3.3%	431.9	18.2%	510.7	-2.8%	496.2	0.0	496.2
Total 925.02	513.6	-54.7%	232.7	22.9%	285.9	58.5%	453.1	3.6%	469.2	19.8%	562.0	-2.3%	549.3	0.0	549.3
Total Account 925	1361.2	3.5%	1409.2	-50.0%	705.3	2.7%	724.1	6.2%	768.9	77.2%	1362.6	-3.8%	1311.2	0.0	1311.2
GRAND TOTAL	1701.4	11.1%	1890.6	-28.4%	1353.8	2.9%	1392.8	52.1%	2117.9	-2.0%	2075.9	-0.7%	2061.5	0.0	2061.5

MAUI ELECTRIC CO., LTD.
Insurance Premiums and Related Expenses ($000s)

Insurance Premium By Type of Insurance	2001 Recorded	* Change * Percent	2002 Recorded	* Change * Percent	2003 Recorded	* Change * Percent	2004 Recorded	* Change * Percent	2005 Recorded	* Change * Percent	2006 Op Budget	* Change * Percent	2007 Op Budget	Budget Adjust-ments	2007 Test Year Estimate
ACCOUNT 924.00, PROPERTY															
Property &	187.1	74.4%	326.3	42.9%	466.2	-7.8%	430.0	-2.3%	419.9	8.0%	453.4	15.4%	523.0	0.0	523.0
Boiler/Machinery	74.6	69.6%	126.5	33.5%	168.9	-8.2%	155.1	1.4%	157.2	14.9%	180.7	5.1%	190.0	0.0	190.0
Freight Insurance	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	79.2	0.0%	0.6	0.0	0.6
Subtotal	261.7	73.0%	452.8	40.3%	635.1	-7.9%	585.1	-1.4%	577.1	23.6%	713.3	0.0%	713.6	0.0	713.6
ACCOUNT 925.01, INJURIES & DAMAGES - EMPLOYEE															
Excess Workers Comp	19.5	111.8%	41.3	17.4%	48.5	-6.4%	45.4	-1.8%	44.6	9.6%	48.9	39.7%	68.3	0.0	68.3
State Self-Insurers	14.3	145.5%	35.1	5.4%	37.0	-57.0%	15.9	-88.7%	1.8	1583.3%	30.3	100.0%	15.2	0.0	15.2
Subtotal	33.8	126.0%	76.4	11.9%	85.5	-28.3%	61.3	-24.3%	46.4	70.7%	79.2	5.4%	83.5	0.0	83.5
ACCOUNT 925.02, INJURIES & DAMAGES - PUBLIC															
General Liability	133.6	28.8%	172.1	26.8%	218.2	22.0%	266.1	11.2%	295.8	5.9%	313.4	6.6%	334.0	0.0	334.0
Director/Officer	27.3	-104.0%	(1.1)	45.5%	(0.6)	7816.7%	46.3	6.9%	49.5	4.0%	51.5	0.6%	51.8	0.0	51.8
Fiduciary & Employee Ben Li	7.8	-79.5%	1.6	425.0%	8.4	120.2%	18.5	40.5%	26.0	23.8%	32.2	1.6%	32.7	0.0	32.7
Crime	2.5	116.0%	5.4	205.6%	16.5	9.1%	18.0	-16.7%	15.0	10.0%	16.5	-10.3%	14.8	0.0	14.8
Special Contingency	0.0	0.0%	0.0	0.0%	0.0	0.0%	1.4	-100.0%	0.0	0.0%	0.0	0.0%	0.0	0.0	0.0
Other (Auto, Prof Liab, Bonds	0.0	0.0%	0.0	0.0%	0.3	1933.3%	6.1	-24.6%	4.6	-32.6%	3.1	22.6%	3.8	0.0	3.8
Subtotal	171.2	4.0%	178.0	36.4%	242.8	46.8%	356.4	9.7%	390.9	6.6%	416.7	4.9%	437.1	0.0	437.1
GRAND TOTAL	466.7	51.5%	707.2	36.2%	963.4	4.1%	1002.8	1.2%	1014.4	19.2%	1209.2	2.1%	1234.2	0.0	1234.2

MAUI ELECTRIC CO., LTD.
Absorbed Losses and Nonlabor Safety Expenses ($000s)

Type of Claim	Acitivity	2001 Recorded	* Change * Percent	2002 Recorded	* Change * Percent	2003 Recorded	* Change * Percent	2004 Recorded	* Change * Percent	2005 Recorded	* Change * Percent	2006 Op Budget	* Change * Percent	2007 Op Budget	Budget Adjust-ments	2007 Test Year Estimate
ACCOUNT 924.00, PROPERTY																
Reserve Accrual	951	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	750.0	-100.0%	0.0	0.0%	0.0	0.0	0.0
Absorbed Losses	951	78.5	-63.6%	28.6	-53.1%	13.4	523.9%	83.6	-73.8%	21.9	-100.0%	0.0	n/a	36.7		36.7
Subtotal		78.5	-63.6%	28.6	-53.1%	13.4	523.9%	83.6	823.3%	771.9	-100.0%	0.0	n/a	36.7	0.0	36.7
ACCOUNT 925.01, INJURIES & DAMAGES - EMPLOYEE																
Wage Benefit	098	70.7	-81.0%	13.4	250.0%	46.9	-31.1%	32.3	-60.1%	12.9	210.9%	40.1	-62.6%	15.0	0	15.0
Claims	953	307.7	36.8%	420.8	-30.1%	294.0	-23.4%	225.2	3.4%	232.8	50.3%	349.8	-0.3%	348.8	0.0	348.8
Reserve Accrual	953	196.8	119.4%	431.8	-152.6%	(227.3)	-39.9%	(318.0)	17.8%	(261.4)	100.0%	0.0	n/a	0.0	0.0	0.0
On-Cost	953	0.6	0.0%	0.6	-100.0%	0.0	0.0%	0.5	0.0%	0.3	0.0%	0.0	0.0%	0.0	0.0	0.0
Employee Claims Subtotal		575.8	50.5%	866.6	-86.9%	113.6	-152.8%	(60.0)	74.3%	(15.4)	2631.8%	389.9	-6.7%	363.8	0.0	363.8
Safety & Security Program	795, 796	77.0	8.4%	83.5	-10.4%	74.8	28.7%	96.3	9.2%	105.2	13.3%	119.2	-4.7%	113.6	0.0	113.6
On-Cost	795, 796	1.6	-81.2%	0.3	-600.0%	(1.5)	166.7%	1.0	-240.0%	(1.4)	442.9%	4.8	-85.4%	0.7	0.0	0.7
Safety Program Subtotal		78.6	6.6%	83.8	-12.5%	73.3	32.7%	97.3	6.7%	103.8	19.5%	124.0	-7.8%	114.3	0.0	114.3
Reserve Accrual/Safety Program Subtotal		654.4	45.2%	950.4	-80.3%	186.9	-80.0%	37.3	137.0%	88.4	481.3%	513.9	-7.0%	478.1	0.0	478.1
ACCOUNT 925.02, INJURIES & DAMAGES - PUBLIC																
MECO Customer Claims	950	181.4	-78.6%	38.9	-21.3%	30.6	116.3%	66.2	-40.8%	39.2	139.8%	94.0	-46.8%	50.0	0.0	50.0
Other Public Claims	950	25.6	-64.5%	9.1	-100.0%	0.0	0.0%	0.9	-100.0%	0.0	0.0%	0.0	0.0%	0.0	0.0	0.0
Reserve Accrual	950	112.6	-104.5%	(5.1)	-70.6%	(8.7)	28.7%	(6.2)	100.0%	0.0	0.0%	0.0	n/a	0.0	0.0	0.0
On-cost	950	0.5	-20.0%	0.4	-25.0%	0.3	166.7%	0.8	125.0%	1.8	-100.0%	0.0	n/a	9.1	0.0	9.1
Claims / Reserve Accrual Subtotal		320.1	-86.5%	43.3	-48.7%	22.2	177.9%	61.7	-33.5%	41.0	129.3%	94.0	-37.1%	59.1	0.0	59.1
GRAND TOTAL		1053.0	-2.9%	1022.3	-78.2%	222.5	-17.9%	182.6	393.6%	901.3	-32.6%	607.9	-5.6%	573.9	0.0	573.9

HAWAIIAN ELECTRIC COMPANY, INC.
Labor and Related Expenses

MAUI ELECTRIC CO., LTD.
Labor and Related Expenses ($000s)

Type of Claim	Activity	2001 Recorded	* Change * Percent	2002 Recorded	* Change * Percent	2003 Recorded	* Change * Percent	2004 Recorded	* Change * Percent	2005 Recorded	* Change * Percent	2006 Op Budget	* Change * Percent	2007 Op Budget	Budget Adjust-ments	2007 Test Year Estimate
ACCOUNT 925.01, INJURIES & DAMAGES - EMPLOYEES																
Workers' Comp Direct Labor	953	28.4	22.2%	34.7	-12.4%	30.4	-4.9%	28.9	-9.0%	26.3	50.2%	39.5	-20.0%	31.6		31.6
Workers' Comp On-Cost	953	4.5	28.9%	5.8	-17.2%	4.8	-12.5%	4.2	-9.5%	3.8	68.4%	6.4	-25.0%	4.8		4.8
Subtotal		32.9	23.1%	40.5	-13.1%	35.2	-6.0%	33.1	-9.1%	30.1	52.5%	45.9	-20.7%	36.4		36.4
Safety Program Direct Labor	795, 796	109.7	-14.5%	93.8	3.2%	96.8	24.6%	120.6	-3.1%	116.9	19.1%	139.2	2.7%	142.9		142.9
Safety Program On-Cost	795, 796	16.8	-8.3%	15.4	-2.6%	15.0	24.7%	18.7	-4.3%	17.9	25.1%	22.4	-6.2%	21.0		21.0
Subtotal		126.5	-13.7%	109.2	2.4%	111.8	24.6%	139.3	-3.2%	134.8	19.9%	161.6	1.4%	163.9		163.9
Workers' Comp & Safety Program		159.4	-6.1%	149.7	-1.8%	147.0	17.3%	172.4	-4.4%	164.9	25.8%	207.5	-3.5%	200.3		200.3
ACCOUNT 925.02, INJURIES & DAMAGES - PUBLIC																
Direct Labor	950	18.6	-47.8%	9.7	88.7%	18.3	69.9%	31.1	6.1%	33.0	30.9%	43.2	9.7%	47.4		47.4
On-Cost	950	3.7	-54.1%	1.7	52.9%	2.6	50.0%	3.9	10.3%	4.3	88.4%	8.1	-29.6%	5.7		5.7
Subtotal		22.3	-48.9%	11.4	83.3%	20.9	67.5%	35.0	6.6%	37.3	37.5%	51.3	3.5%	53.1		53.1
Total 925.01 &925.02		181.7	-11.3%	161.1	4.2%	167.9	23.5%	207.4	-2.5%	202.2	28.0%	258.8	-2.1%	253.4		253.4

MAUI ELECTRIC COMPANY, LTD.
EMPLOYEE BENEFITS TRANSFER
ACCOUNT 926020

			2007 (000)	
Cost Pool:				
Labor to 926		$	70	
NPW			10	
Payroll Taxes			6	
Eng Del			0	
Corp Admin			8	
Stores			1	
Emp Ben			24	
Nonlabor			7,746	*
	A	$	7,865	
Cost Base:				
Total Company Productive Hours			678	
	B		678	
Employee Benefits rate per hour	C = A ÷ B	$	11.59	
Total Company Productive Hours	D	X	678	
Employee Benefits transfer - based on total productive hours	E = C X D			$ 7,865
Reversal of Employee Benefits on-cost charged to O&M		+		(5,742)
Employee Benefits transfer				$ 2,123

* Note: Does not include budget adjustment I (see MECO-901, page 22), an addition of $55. This will be adjusted at rebuttal.

MAUI ELECTRIC COMPANY, LIMITED
Account 928 - Regulatory Commission Expenses
Rate Case Expenses
Test Year 2007 Estimate

Outside Legal Services	768,000	
Consultants - Return On Common Equity	53,500	
Consultants - HEI Impact (Affadavit)	10,000	
Consultants - Act 162	25,000	
Consultants - Other	152,000	
Other Non-Labor Charges		
(Witness Training, Mailings, Travel, Supples, etc.)	17,000	
Total 2007 Rate Case Expenses	1,025,500	
Amortization Period (# Of Years)	3	Years
Test Year 2007 Amortization Amount	341,800	

MAUI ELECTRIC COMPANY, LIMITED
Account 9302 - Miscellaneous General Expenses
Test Year 2007 Estimate

930.21 Community Service Activities	56,200	
930.22 Company Memberships	101,100	MECO-917
930.24 Research and Development	497,700	MECO-918
930.25 Preferred Stock and Long-Term Debt Expense	96,100	MECO-920
930.28 Directors' Fees and Expenses	25,900	MECO-921
Test Year 2007 Estimate	777,000	

MAUI ELECTRIC COMPANY, LIMITED
Company Membership Expenses
Account 9302

Description	Recorded 2001	2002	2003	2004	2005	Operating Budget 2006	Operating Budget 2007	Budget Adjts	Rate Case Adjts	Test Year 2007
EEI	45,233	50,524	54,028	55,337	58,860	-	68,007		(20,734)	47,273
Maui Economic Development Board	10,000	10,000	10,000	10,000	(A)	10,000	10,000			10,000
Hawaii Employers Council	2,458	2,654	2,562	2,612	2,695	2,814	2,815			2,815
Maui Chamber of Commerce	2,118	2,118	2,266	2,992	2,960	3,000	3,000			3,000
Better Business Bureau	980	1,000	1,020	878	896	900	900			900
Clean Islands Council	-	34,220	-	34,220	34,220	35,000	35,064			35,064
Others	550	-	378	1,120	-	1,600	2,000			2,000
	61,339	100,516	70,254	107,159	99,631	53,314	121,786	-	(20,734)	101,052

(A) 2005 MEDB membership dues were charged to account 910 in error.

MAUI ELECTRIC COMPANY, LIMITED
Company Membership Expenses
EEI Dues
Test Year 2007

EDISON ELECTRIC INSTITUTE (EEI) DUES
2007 Budget (August 2006)

		TOTAL	HECO	HELCO	MECO
Average Customers					
(2005 Actual)		425,662	290,038	72,521	63,103
(x .1895)[1]	(A)	80,663	54,962	13,743	11,958
Electric Sales Revenues ($000)					
(2005 Actual)		$ 1,801,709	$ 1,204,219	$ 294,411	$ 303,079
Percentage of Total		100.00%	66.84%	16.34%	16.82%
1st 1000M @ .1548 per thou		154,800			
1000-2000M @ .09324 per thou		74,751			
		229,551			
Proportionate sh[2]	(B)	$229,551	$153,432	$37,509	$38,610
Generation Owned Capacity					
(As of Sept 1, 2006)[5]		1,717,750	1,263,000	181,300	273,450
(x .028655)[1]	(C)	$ 49,224	$ 36,192	$ 5,195	$ 7,837
(A)+(B)+(C)	(D)	$ 359,438	$ 244,586	$ 56,447	$ 58,405
+6.0%,-6.0% limitation[3]	(E)	-	$ -	$ -	$ -
Membership dues for regular activities (D) + (E)	(F)	$ 359,438	$ 244,586	$ 56,447	$ 58,405
SFA Industry Structure[4] Assessment - (F) x 15%[1]	(G)	$ 53,916	$ 36,688	$ 8,467	8,761
Mutual Assistance Program	(H)	5,000	$ 3,342	$ 817	$ 841
TOTAL EEI DUES (F) + (G) + (H)	(I)	**$ 418,354**	**$ 284,616**	**$ 65,731**	**$ 68,007**

Less Estimated Lobbying Expenses:	25% of Dues (Line H)	(14,601)
	70% of SFA Industry Structure Assessment (Line G)	(6,133)
Adjusted MECO Test Year 2007 EEI Dues		$ 47,273

[1]Note: 2007 rates per EEI letter that came with 2006 bill. See MECO-WP-905.
[2]Based on revenues - consistent with prior year and ratemaking
[3]Dues are no longer limited
[4]Percentage applied to membership dues for regular activities-line (F)
[5]Per Frank Vargo for HECO; HELCO per Don Heinzen; and Jane Tanaka for MECO.

MAUI ELECTRIC COMPANY, LIMITED
Account 9302 - Miscellaneous General Expenses
RESEARCH & DEVELOPMENT EXPENSE

	Recorded					Operating Budget	Operating Budget	Budget	Test Year
	2001	2002	2003	2004	2005	2006	2007	Adjustment	2007
EPRI Dues	202,800	200,400	197,418	237,718	198,708	-	222,132	7,268	229,400
Local Research & Development:									
Sun Power for Schools	7,171	15,712	9,802	(49,847)	(7,688)	10,569	95,879		95,879
Photovoltaic/Solar Park	11,681	4,350	3,745	7,151	1,781	-	-		-
BIPV demonstration	2,180	2,365	83,440	20,737	(17,125)	-	-		-
Biodiesel feasibility assessment	14,425	-	-	-	-	-	-		-
Hawaii Energy Test Lab	-	-	-	-	95,354	-	-		-
Electronic shock absorber	-	-	-	75,725	78,748	25,000	-		-
Lanai pumped storage	-	-	-	45,911	2,041	-	-		-
CHP phase 1	-	202,110	39,665	267	(15,490)	-	-		-
Solar air conditioning	-	-	-	-	-	-	80,000		80,000
Photovoltaic County grant	-	-	-	-	-	-	25,000		25,000
Power Quality Technology							29,500		29,500
Advanced HVAC Systems							25,000		25,000
Other projects to be determined	-	-	-	-	-	165,000			-
Sub-total local R&D	35,457	224,537	136,652	99,944	137,621	200,569	255,379	-	255,379
Other:									
Others (primarily labor & on costs)	2,154	7,302	4,850	20,610	9,845	160,084	12,958		12,958
Coding error - should have have been account 923030	-	-	-	-	42,635	-	-		
Sub-total other	2,154	7,302	4,850	20,610	52,480	160,084	12,958	-	12,958
Total	240,411	432,239	338,920	358,272	388,809	360,653	490,469	7,268	497,737

Maui Electric Company, Ltd.
Account 9302 - Miscellaneous General Expenses
Research & Development Expense
EPRI Dues
Test Year 2007 ($ 000)

2007 EPRI Dues - HECO Consolidated	2,085,457	MECO-WP-906
MECO's Allocation Percentage	11.000%	
MECO's Allocable Portion of 2007 EPRI Dues	229,400	

Note: The 2007 test year estimate above was calculated based on a rounded 11.000% allocation percentage. The more precise percentage for MECO is 10.655% per Docket No. 97-0346, amended D&O No. 16922, which would result in an allocation of $222,200, a difference of $7,200. The 2007 test year estimate will be corrected at rebuttal, if not earlier.

MAUI ELECTRIC COMPANY, LIMITED
Preferred Stock & Long-Term Debt Expenses
Account 9302

Description	Recorded 2001	2002	2003	2004	2005	Operating Budget 2006	Operating Budget 2007	Budget Adjts	Rate Case Adjts	Test Year 2007
		---------->								
Revenue Bonds	10,440	426	1,368	959	8,897	-	-			-
Trustee Fees	11,640	9,481	11,155	8,607	8,446	14,604	10,680			10,680
Others - Rating Agencies/Legal/NYSE Fees	9,132	5,200	23,380	12,649	16,216	38,286	35,382			35,382
QUIPS	696	-	2,588	7,281	408	-	-			-
Line of Credit Agreements	-	-	-	-	346	-	-			-
HECO ICB - Manage Financing	28,401	24,993	28,646	31,430	38,706	56,868	50,084			50,084
Subtotal	60,309	40,100	67,137	60,926	73,019	109,758	96,146	-	-	96,146

MAUI ELECTRIC COMPANY, LIMITED
Directors Fees And Expenses
Test Year 2007

Quarterly Meetings	4
Number of Outside Directors (4, of which 1 is currently unfilled)	4
Fees Per Director Per Meeting	1,000
Total Director Fees for 2007	16,000
HECO Officers' Travel and Other Expenses	9,900
Total	25,900

MAUI ELECTRIC COMPANY, LIMITED
A & G Maintenance Expense
Account 932.00
Test Year 2007

	Maui	Molokai	Lanai	Total	
2001	125,295	31,643	601	157,539	
2002	148,097	31,857	13,907	193,861	
2003	194,174	25,532	23,009	242,715	
2004	157,824	60,354	6,445	224,623	
2005	147,443	42,661	14,159	204,263	MECO-WP-907
Five Year Total	772,833	192,047	58,121	1,023,001	
	5	5	5	5	Years
Average	154,567	38,409	11,624	204,600	
2007 Test Year	114,438	40,874	3,244	158,556	

Maui Electric Company, Ltd.
Operation & Maintenance Non-Labor Costs
Use Of General Inflator
2007

Block Of Account	(A) 2007 Costs Using Specific Cost Indices (NOTE 1)	(B) 2007 Costs Using 2.50% General Inflator	MECO-923, PAGE	(C) (A) + (B) 2007 Budget
Production Operations	3,920,440	25,814	2	3,946,254
Transmission Operations	245,853	49,200	3	295,053
Distribution Operations	582,258	103	4	582,361
Customer Accounts	1,066,174	0		1,066,174
Customer Services	2,704,048	0		2,704,048
A & G Operations	14,191,455	0		14,191,455
Subtotal - Non-Labor (NOTE 2)	22,710,228	75,117		22,785,345
Production Maintenance	7,731,648	2,359,404	5	10,091,052
Transmission Maintenance	700,717	123,000	6	823,717
Distribution Maintenance	1,451,800	2,583	7	1,454,383
A & G Maintenance	140,754	0		140,754
Subtotal - Non-Labor (NOTE 2)	10,024,919	2,484,987		12,509,906
Total O&M - Non-Labor (NOTE 2)	32,735,147	2,560,104		35,295,251
Total O&M - Labor (NOTE 3)				15,891,864
Total O&M - Labor / Non-labor Overheads				2,016,882
Total O&M - Per MECO-WP-101				53,203,997

NOTE 1 - I.E. - Negotiated Contract, Lease Agreement, Other Cost Indices
NOTE 2 - Excludes Non-labor Overheads
NOTE 3 - Excludes Labor Overheads

Maui Electric Company, Ltd.
Operation & Maintenance Non-Labor Costs
Use Of General Inflator
2007

Block of Account	NARUC Account	RA	ABM Activity	Location	Indicator	Project	Expense Element	2007 Amount	General Inflator
Production	506	MGA	788	MPO	NE	NMGZZZZZ	508	3,931	2.50%
Operations	548L	MGL	247	LNS	NE	NMGZZZZZ	501	3,043	2.50%
|	549	MGE	795	MNS	NE	NMGZZZZZ	201	947	2.50%
|	549	MGM	796	MNS	NE	NMGZZZZZ	501	11,378	2.50%
|	549L	MGL	795	LNS	NE	NMGZZZZZ	205	762	2.50%
|	549M	MGT	796	GNS	NE	NMGZZZZZ	501	4,678	2.50%
V	549M	MGT	934	GNS	NE	NMGZZZZZ	501	1,075	2.50%
								25,814	

Maui Electric Company, Ltd.
Operation & Maintenance Non-Labor Costs
Use Of General Inflator
2007

Block of Account	NARUC Account	RA	ABM Activity	Location	Indicator	Project	Expense Element	2007 Amount	General Inflator
Transmission Operations	567	MDE	926	MTO	NE	NMDZZZZZ	570	49,200	2.50%
								49,200	

Maui Electric Company, Ltd.
Operation & Maintenance Non-Labor Costs
Use Of General Inflator
2007

Block of Account	NARUC Account	RA	ABM Activity	Location	Indicator	Project	Expense Element	2007 Amount	General Inflator
Distribution Operations	583	MDK	461	MAU	NE	NMDZZZZZ	570	103	2.50%
								103	

Maui Electric Company, Ltd.
Operation & Maintenance Non-Labor Costs
Use Of General Inflator
2007

Block of Account	NARUC Account	RA	ABM Activity	Location	Indicator	Project	Expense Element	2007 Amount	General Inflator
Production	512	MGB	257	N01	NE	M0000168	201	18,821	2.50%
Maintenance	512	MGB	257	N02	NE	M0000146	201	22,613	2.50%
|	512	MGB	257	N03	NE	M0000170	501	5,125	2.50%
|	553	MGC	272	M16	NE	M0000056	501	2,460	2.50%
|	553	MGC	272	M17	NE	M0000356	501	1,230	2.50%
|	553	MGC	272	M19	NE	M0000357	501	1,230	2.50%
|	553	MGD	275	M03	NE	M0000151	201	166,992	2.50%
|	553	MGD	275	M04	NE	M0000065	201	186,690	2.50%
|	553	MGD	275	M05	NE	M0000066	201	186,690	2.50%
|	553	MGD	275	M05	NE	M0000066	501	10,250	2.50%
|	553	MGD	275	M06	NE	M0000022	201	186,690	2.50%
|	553	MGD	275	M08	NE	M0000067	201	149,390	2.50%
|	553	MGD	275	M08	NE	M0000067	501	60,885	2.50%
|	553	MGD	275	M10	NE	M0000034	201	26,185	2.50%
|	553	MGD	275	M12	NE	M0000050	201	451,458	2.50%
|	553	MGD	275	M12	NE	M0000050	501	96,350	2.50%
|	553M	MGT	275	G07	NE	M0000156	501	262,115	2.50%
|	553M	MGT	275	G08	NE	M0000030	501	262,115	2.50%
V	553M	MGT	275	G09	NE	M0000031	501	262,115	2.50%
								2,359,404	

Maui Electric Company, Ltd.
Operation & Maintenance Non-Labor Costs
Use Of General Inflator
2007

Block of Account	NARUC Account	RA	ABM Activity	Location	Indicator	Project	Expense Element	2007 Amount	General Inflator
Transmission Maintenance	573	MDR	354	MAU	NE	NMDZZZZZ	501	123,000	2.50%
								123,000	

Maui Electric Company, Ltd.
Operation & Maintenance Non-Labor Costs
Use Of General Inflator
2007

Block of Account	NARUC Account	RA	ABM Activity	Location	Indicator	Project	Expense Element	2007 Amount	General Inflator
Distribution Maintenance	593	MDE	494	MAU	NE	NMDZZZZZ	501	2,583	2.50%
								2,583	

ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE

(Updated as of April 1, 2006)

Introduction

The following guidelines are provided to assist in the accounting for computer hardware and software costs (acquired, internally developed, or modified solely to meet the entity's needs). This is not meant to be all-inclusive, however we will continue to add or revise the information below, as needed, to provide additional clarification. Questions with respect to these guidelines should be addressed to the Controller or Director of Corporate and Property Accounting.

As a general rule, the costs of computer software, including applicable labor to install the software, and ongoing maintenance are generally charged to the appropriate functional operation and maintenance (O&M) expense account(s), i.e. expensed as incurred, based on the benefiting organization unless:

1. Deferrable software costs have been identified in accordance with applicable accounting standards AND approval has been obtained from the PUC allowing the Company to defer those costs,
2. The computer software is an operating system-type (e.g., Windows XP) software needed to render the new computer hardware "used or useful",
3. Specific overhead costs allowed to be applied to deferrable software costs,
4. AFUDC on deferrable software costs.

Costs for software development projects less than $500K would generally be expensed as incurred. (The $500K threshold refers to the amount of costs that would be deferred during the application development stage described below. It does not refer to the total costs that would be incurred during all three project stages described below.) Please notify the Controller or Director of Corporate and Property Accounting of projects that are less than $500K that will be expensed.

Accounting for Computer Software Guidelines

The costs of software upgrades and enhancements that do not provide additional functionality to the existing software (i.e., modifications to the existing software that would enable the software to perform tasks that it was previously incapable of performing) should be charged to the appropriate functional O&M expense account(s), i.e. expensed as incurred, based on the benefiting organization.

Software that is acquired, internally developed, or modified solely to meet the entity's needs should adhere to the guidance set forth below. In general, software development can be segregated into three stages as follows (also summarized in Exhibit 1):

- Preliminary Project Stage. This stage includes conceptual formulation of software alternatives, evaluation of the alternatives, determination of the existence of needed technology, and final selection of alternatives. Internal and external costs incurred during this stage should be charged as incurred to the appropriate functional O&M expense account(s), based on the benefiting organization, i.e. expensed as incurred.

- Application Development Stage. This stage includes the design of a chosen path, including software configuration and software interface, coding, software installation, and testing, including parallel processing. Certain internal and external costs incurred during this stage should be deferred, including costs to develop or obtain software that allows for access of old data by new systems. Certain applicable overhead and AFUDC costs on the deferrable software costs is also deferred.

  The process of data conversion from old to new systems may include purging or cleansing of existing data, reconciliation or balancing of the old data and the old/new system, creation of new/additional data, and conversion of old data to the new system. Data conversion often occurs during the Application Development Stage; however, data conversion costs, other

ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE

(Updated as of April 1, 2006)

than the costs to develop or obtain software that allows for access of old data by new systems, should be charged as incurred to the appropriate functional O&M expense account(s), based on the benefiting organization, i.e. expensed as incurred.

- Post-Implementation/Operation Stage. This stage includes training and application maintenance. Internal and external costs incurred during this stage should be charged as incurred to the appropriate functional O&M expense account(s), based on the benefiting organization, i.e. expensed as incurred.

Further, costs of activities typically associated with business process reengineering should be charged as incurred to the appropriate functional O&M expense account(s), based on the benefiting organization, i.e. expensed as incurred. Note that these activities can occur during any stage above. Examples include the following:

- Preparation of a request for proposal
- Current state assessment – The process of documenting the entity's current business process, except as it relates to current software structure. Often referred to as *mapping, developing an "as-is" baseline, flow charting,* and *determining current business process structure.*
- Process reengineering – The effort to reengineer the entity's business process to increase efficiency and effectiveness. This activity is sometimes referred to as *analysis, determining "best-in-class," profit/performance improvement development,* and *developing "should-be" processes.*
- Restructuring the work force – The effort to determine what employee is necessary.

Accounting for Computer Hardware Guidelines:
Any computer hardware costs incurred relative to the development or acquisition of software should be capitalized following existing Company policies and procedures. Computer operating system software which is acquired in connection with new hardware should be capitalized together with the hardware under the basis that the operating system is needed to deem the hardware "used or useful".

ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE

(Updated as of April 1, 2006)

Exhibit 1

The following table sets forth the accounting for typical components of a software development project based on whether the item should be expensed, deferred, or capitalized. Please note that some of the activities listed below may occur in multiple stages.

	Internal or Third Party		
Steps	**Expensed**	**Deferred**	**Capitalized**
Business process reengineering and information technology transformation (these activities primarily occur, but not limited to, prior to preliminary project stage):			
Preparation of request for proposal (RFP)	X		
Current state assessment (*i.e., mapping, developing an "as-is" baseline, flow charting, determining current business process structure.*)	X		
Process reengineering (*i.e., analysis, determining "best-in-class," profit/ performance improvement development, developing "should-be" processes.)*	X		
Restructuring work force	X		
Preliminary software project stage activities:			
Conceptual formulation of alternatives	X		
Evaluation of alternatives	X		
Determination of existence of needed technology	X		
Final selection of alternatives	X		
Examples of the preliminary project stage include: • Strategic decisions to allocate resources between alternative projects at a given point in time (e.g., should programmers develop a new payroll system or direct their efforts toward correcting existing problems in an operating payroll system?) • Determine the performance requirements (i.e., what the software needs to do) and systems requirements for the project • Invite vendors to perform demonstrations of how their software will fulfill an entity's needs • Explore alternative means of achieving specified performance requirements (e.g., should an entity	X		

ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE

(Updated as of April 1, 2006)

	Internal or Third Party		
Steps	**Expensed**	**Deferred**	**Capitalized**
make or buy the software? Should the software run on a mainframe or a client server system?) • Determine that the technology needed to achieve performance requirements exists • Select a vendor if an entity chooses to obtain software • Select a consultant to assist in the development or installation of the software			
Application development stage activities:			
Design of chosen path, including software configuration and software interface		X	
Coding		X	
Installation to hardware		X	
Testing, including parallel processing phase		X	
Data conversion costs: a. Costs to develop or obtain software that allows for access of old data by new system		X	
b. Process of converting data from old to new systems (e.g., purging or cleansing of existing data), reconciliation or balancing of the old data and the new data in the new system, creation of new/additional data, and conversion of the old data to the new system.	X		
Training	X		
Post-implementation/ operation stage activities:			
Training	X		
Application maintenance	X		
Ongoing support	X		
Acquisition of fixed assets:			
Purchase of hardware, office furniture, or work stations, including operating system			X
Reconfiguration of work area - architect fees and hard construction costs			X

MAUI ELECTRIC COMPANY, LIMITED
Unamortized Human Resources Suites Software Development Costs
Test Year 2007

Total estimated deferred costs for Phase 1, Stage 1	469,567
2007 amortization expense *	(3,261)
Balance - unamortized software development costs as of 12/31/07	466,306

By Division:

	# of Employees	% of Total	Unamortized Software Development Costs
Maui	312	93.1%	434,291
Lanai	9	2.7%	12,528
Molokai	14	4.2%	19,487
Total MECO	335	100.0%	466,306

* Note: Amortization expense calculated based on 12-year amortization period. The 2007 amortization expense is for one month only (December 2007) and is included in Account 926, Employee Pensions and Benefits and is covered by Ms. Julie Price in section T-10.

ACCOUNTING FOR CAPITAL PROJECT COSTS

(As of October 1, 2000) *

The purpose of this document is to describe the general policies and procedures with respect to accounting for capital project costs. This document does not address how to account for the costs of non-capital projects. A chart summarizing the discussion below is attached. There may be facts and circumstances unique to a given project (e.g. a new generating unit addition project) that are not specifically or adequately addressed by the following discussion. When in doubt as to the proper accounting treatment for capital project costs, please consult with the Controller or a Property Accountant in the Property Accounting Division of the General Accounting Department.

Usual Capital Project Life Cycle

The steps usually encountered in a project's life cycle, which provide useful reference points in describing the accounting for capital project costs, are as follows:

1. General planning work to determine overall system requirements. Work includes analyses, feasibility studies and investigations to determine if there is sufficient justification to propose potential projects.
2. Preliminary engineering work associated with potential projects prior to formal project approval by management. Some of the potential projects are eventually constructed, while others do not materialize.
3. Project is initiated, and formally approved by management.
4. Detailed design and permitting work on projects formally approved by management.
5. Purchase of equipment and materials.
6. Construction of plant facilities.
7. Facilities are declared to be used or useful.
8. Closing (capitalization) of project costs.

Potential capital projects are identified and evaluated during step 2. Preliminary engineering work on potential projects is usually intermittent during step 2 because decisions have not yet been made regarding which projects will move forward.

During step 3, projects selected to move forward are initiated by the Project Manager or other appropriate individual, and formally approved by management. As a general rule, management's approval should not be obtained until work on the project needs to begin in order to meet the project's required "in service" date. Management's approval normally means that work on the project should start now and should continue until completion. Once a project is started, steps 4 through 8 should be completed on a planned progressive basis, i.e. without delay, except for the delays that are inherent in the asset acquisition process such as the ordering, purchasing and delivering of long lead time material, and delays due to permitting and external approval processes.

*Clarified on May 1, 2006

Accounting for Capital Project Costs - Usual Project Life Cycle

Under the usual project life cycle summarized above, general planning costs incurred in step 1 are charged initially to appropriate clearing accounts and are then allocated as an on-cost (overhead) charge to projects during steps 4-6 of the projects' life cycles (note that a portion of the costs are actually charged to expense or other accounts as a result of the clearing process). Preliminary engineering costs incurred in step 2 are also charged initially to appropriate clearing accounts. However, preliminary engineering costs are identified with the related potential project, and are temporarily held in the clearing account. The preliminary engineering costs incurred in step 2 are eventually allocated as an on-cost (i.e. treated the same as costs incurred in step 1) if no project is formulated. However, if the related potential project is approved for construction, the preliminary engineering costs are transferred to construction work in progress (CWIP) as explained in the next paragraph.

After a potential project is formally approved by management (step 3), a fifth segment project is activated in the MIMS General Ledger and concurrently set up in the MIMS Project Control Module. Project Managers or other appropriate individuals can then set up the project hierarchy in the MIMS Project Control Module, after which all related project costs incurred during steps 4-7 are classified as CWIP. In addition, any related preliminary engineering costs incurred in step 2 are transferred from the clearing account to the now approved project and CWIP.

During the time project related costs are classified as CWIP (steps 4-7), an Allowance For Funds Used During Construction (AFUDC) is applied on the project costs. AFUDC represents the cost to finance the project during the construction period. When the facilities being constructed are declared to be used or useful, the application of AFUDC is stopped, and the project costs are closed (capitalized), i.e. transferred from CWIP to Plant in Service (step 8).

Facilities become used when they are placed into service. Facilities become useful generally when: 1) construction is for the most part complete, 2) the facilities have been tested (if testing is possible and appropriate), and 3) the facilities are ready for use (i.e. they are able to perform their intended function, and can be energized, pending completion of a related facility(ies), without a significant amount of additional costs incurred). As a general rule, it is expected that facilities will become used within a reasonable period of time after they become useful.

To facilitate the proper and timely closing of capital project costs, we will generally close costs at the controlled fifth segment project level. Therefore, controlled fifth segment projects should be scoped/structured with the following in mind: 1) the facilities included in the project scope should represent full units of property as defined in the company's property unit catalog, 2) the planned completion dates for all of the facilities should be approximately the same and 3) the facilities should be used or useful (see guidelines in the previous paragraph) at the time the facilities are

completed. With respect to item 2) in the previous sentence, if the planned completion dates for the facilities included in a fifth segment project (each of which represent full property units) become significantly different, the cost of any facilities which are completed and ready for service (used or useful) should be closed, i.e. capitalized.

Accounting for Capital Project Costs - Delayed or Abandoned Projects

Delayed Projects - The accounting for delayed project costs depends on the cause and length of the delay. As a general rule, if the delay is imposed upon the company by external factors (i.e. the delay is unavoidable and beyond the company's control), project costs are treated as described under the Usual Project Life Cycle scenario above, provided that the costs are recoverable from ratepayers. If cost recoverability is uncertain, the appropriate accounting treatment (which is beyond the scope of this discussion) depends on the facts and circumstances of the situation. In these situations, the Controller should be consulted regarding the appropriate accounting treatment.

If a project is delayed at management's discretion rather than by external factors, the treatment of costs will generally depend on the length of the delay. As a general rule, costs related to projects delayed for two years or less will be treated as described under the Usual Project Life Cycle scenario above, except that AFUDC will not be applied during the period(s) of project delay. If the delay is for more than two years, the costs will be treated as though the project were abandoned as described below.

Regardless of the reason for the delay (e.g. external factors or internal management decisions), project costs need to be analyzed when delays of more than one or two months are anticipated. If any of the facilities included in the project scope are used or useful at the time of such project delays, it will generally be necessary to close (capitalize) the costs related to the facilities that are used or useful.

Please note: the determination that a delay has occurred does not necessarily require a complete stoppage of work. A delay generally means that work on the project is no longer proceeding on a planned progressive basis, i.e. is no longer proceeding without delay, except for the delays that are inherent in the asset acquisition process. In other words, if construction is not proceeding as fast as would normally be expected for the type of construction involved, a delay in the project may have occurred.

Abandoned Projects - An abandoned project is one in which a "no go" decision is made during the time the project costs are classified as CWIP, i.e. a "no go" decision is made sometime during steps 4 through 6 of the project's life cycle. Under normal circumstances, the costs of abandoned capital projects are charged to appropriate operation and maintenance expense account(s), unless the costs result in items that have future value. If any of the costs represent items that have future value, e.g. assets that are usable on another capital project, the related costs are transferred to the other project or accounts (e.g. inventory in the case of stock material) as appropriate. If a capital project is abandoned and unusual circumstances exist, e.g. the accumulated

costs are significant, the Company will seek PUC approval for special accounting and ratemaking treatment as appropriate under the circumstances.

Required Communications

The policies and procedures described above with respect to accounting for capital project costs are administered by the Property Accounting Division of the General Accounting Department, based on input required from Project Managers or other appropriate individuals. Project Managers or other appropriate individuals must provide, on a timely basis, the Property Accountants with all the information necessary to properly account for capital project costs. For example, the Property Accountants must be advised when preliminary engineering costs incurred in step 2 need to be transferred from a clearing account to the approved capital project. The Property Accountants must also be advised as soon as projects are completed and/or facilities become used or useful, and as soon as projects are delayed, re-started, or abandoned.

Steps - Construction of Capital Projects

				CWIP/ AFUDC					
	Gen plng (clmg)	Prelim eng (e.g., pewon)	Proj. ini; appvd by mgt	Detailed eng	Permits/ apprvls	Purch equip/ mtl	Construct plant	Used or useful	Close proj costs
Step	1	2	3	4	4	5	6	7	8

Usual Treatment of Costs Under Various Scenarios
(please consult with Controller or Property Accountants)

Scenario	Cost Treatment	AFUDC Treatment
1. Delays due to external factors and cost recovery is probable	Hold in CWIP	Continue
2. Delays <= 2 yrs @ mgt's discretion	Hold in CWIP	Stop until work resumes
3. Work **PERMANENTLY** stopped (project is abandoned)	Transfer to replacement project, inventory, etc. if costs represent items with value	Continue or stop depending on status of new project
	If no replacement project, etc.: Write-off costs to various appropriate O&M expense accounts	Stop and write-off AFUDC
	If costs are significant, seek PUC determination of cost treatment	PUC decides treatment
4. Delays > 2 yrs @ mgt's discretion	Same as 3. above	Same as 3. above

* Clarified on May 1, 2006

Maui Electric Company, Ltd.
Abandoned Project Costs
2007 Test Year Estimate

	NARUC	Recorded 2002	2003	2004	2005	4-Year Average	2007 Operating Budget	Adjustment	2007 Test Year Estimate
Lanai Distribution Abandoned Projects	588L	76	766	8,195	413	2,362		2,362	2,362
Sub-total Lanai		**76**	**766**	**8,195**	**413**	**2,362**	-	**2,362**	**2,362**
Maui Transmission Abandoned Projects	566	3,650	-	21,299	-	6,237	-	6,237	6,237
Maui Distribution Abandoned Projects	588	141,642	54,111	109,524	32,485	84,440	-	84,440	84,440
Sub-total Maui		**145,292**	**54,111**	**130,823**	**32,485**	**90,678**	-	**90,677**	**90,677**
Molokai Distribution Abandoned Projects	588M	95	15,940	-	31,286	11,830	-	11,830	11,830
Sub-total Molokai		**95**	**15,940**	-	**31,286**	**11,830**	-	**11,830**	**11,830**
		145,463	**70,816**	**139,018**	**64,184**	**104,870**	-	**104,870**	**104,870**

Maui Electric Company, Limited

Pension Balances

1987-2007

($ in thousands)

Year	Beginning Pension Balance	Contributions to Trust	NPPC Accrual	Ending Pension Balance
	A Prior Year Col. D	B	C	D A+B-C
1987	$ -	$ 1,255	$ 1,375	$ (120)
1988	(120)	1,287	1,167	-
1989	-	1,272	1,173	99
1990	99	1,686	1,785	-
1991	-	1,644	1,644	-
1992	-	1,863	1,864	(1)
1993	(1)	1,798	1,802	(5)
1994	(5)	2,138	2,140	(7)
1995	(7)	1,441	1,461	(27)
1996	(27)	1,970	2,009	(66)
1997	(66)	1,755	1,765	(76)
1998	(76)	95	952	(933)
1999	(933)	0	591	(1,524)
2000	(1,524)	0	(2,266)	742
2001	742	0	(2,279)	3,021
2002	3,021	0	(1,496)	4,517
2003	4,517	3,223	2,127	5,613
2004	5,613	4,581	1,016	9,178
2005	9,178	1,000	1,745	8,433
2006 (Est.)	8,433	0 [1]	3,210 [1]	5,223 [1]
2007 (Est.)	5,223	0 [1]	3,804 [1]	1,419 [2]
Total		$ 27,008	$ 25,589	

Rate Base Calculation:

Estimated Balance, 12/31/06	$ 5,223	[1]
Estimated Balance, 12/31/07	$ 1,419	[2]
Average 2007 Balance	**$ 3,321**	([1]+[2])/2

Recorded balances, except as noted in footnote 1 below.

[1] Contribution and NPPC accrual amounts per instructions from HEI

Maui Electric Company, Ltd.
Pension Balances
($ thousands)

	12/31/2006	2007 Activity	12/31/2007	
Projected Benefit Obligation	$ 111,258	$ 8,310	$ 119,568	[A]
Fair Value of Plan Assets	92,711	2,745	95,456	[B]
Overfunded (Underfunded)	(18,547)	(5,565)	(24,112)	[C] = [B] - [A]
Less: Pension Balance	5,223	(3,804)	1,419	[D]
AOCI Charge (Pre-Tax)	(23,770)	(1,761)	(25,531)	[E] = [C] - [D]
AOCI Tax Effect	9,249	685	9,934	[F] = - [E] * tax rate
AOCI Charge	$ (14,521)	$ (1,076)	$ (15,597)	[G] = [E] + [F]
Reconciliation to Rate Base:				
Pension AOCI Charge (Pre-Tax)	$ 23,770		$ 25,531	[E]
Pension Liability	(18,547)		(24,112)	[C]
Rate Base (excluding Deferred Tax impact)	5,223		1,419	[H] = [D] = [E] + [C]
Deferred Tax	(2,032)		(552)	[I] = - [H] * tax rate
Net Rate Base (including Deferred Tax impact)	3,191		867	[J] = [H] + [I]

Composite Effective Income Tax Rate 38.91%

Sources:
[A] & [B] Estimates per Watson Wyatt
[D] See MECO-928 p. 1 of 2

Maui Electric Company, Ltd.
Pension Balances - Rate Base Allocation by Division
($ thousands)

	Maui	Lanai	Molokai	MECO Consolidated	
12/31/06:					
Allocation basis:					
Employee Count	312	9	14	335	[A]
Allocation percent	93.1%	2.7%	4.2%	100.0%	
Amounts to be allocated:					
Pension AOCI Charge (Pre-Tax)	22,138	639	993	23,770	[B]
Pension Liability	(17,274)	(498)	(775)	(18,547)	[B]
Rate Base (excluding Deferred Tax impact)	4,864	141	218	5,223	[B]
12/31/07:					
Allocation basis:					
Employee Count	312	9	14	335	[A]
Allocation percent	93.1%	2.7%	4.2%	100.0%	
Amounts to be allocated:					
Pension AOCI Charge (Pre-Tax)	23,778	686	1,067	25,531	[B]
Pension Liability	(22,457)	(648)	(1,008)	(24,112)	[B]
Rate Base (excluding Deferred Tax impact)	1,322	38	59	1,419	[B]

Sources:
[A] MECO-1101, page 2 of 2
[B] MECO-928 page 2 of 2

Maui Electric Company, Limited
OPEB Balances
1993-2007
($ in thousands)

Year	Beginning OPEB Liability Balance A Prior Year Col. D	Contributions to Trust B	FAS 106 Accrual C	Ending OPEB Liability Balance D A+B-C	Ending SFAS 106 Regulatory Asset E	Ending OPEB Balance F D+E	
1993	$ -	$ 451	$ 2,684	$ (2,233)	$ 2,233	$ -	
1994	(2,233)	786	2,452	(3,899)	3,899	-	
1995	(3,899)	2,453	2,362	(3,808)	3,808	-	
1996	(3,808)	2,732	2,508	(3,584)	3,584	-	
1997	(3,584)	2,649	2,425	(3,360)	3,360	-	
1998	(3,360)	1,751	1,527	(3,136)	3,136	-	
1999	(3,136)	806	582	(2,912)	2,912	-	
2000	(2,912)	451	227	(2,688)	2,688	-	
2001	(2,688)	491	267	(2,464)	2,464	-	
2002	(2,464)	776	552	(2,240)	2,240	-	
2003	(2,240)	1,358	1,134	(2,016)	2,016	-	
2004	(2,016)	1,217	993	(1,792)	1,792	-	
2005	(1,792)	1,383	1,159	(1,568)	1,568	-	
2006 (Est.)	(1,568)	1,199 [1]	975 [1]	(1,344)	1,344	-	[1]
2007 (Est.)	(1,344)	1,344 [1]	1,120 [1]	(1,120)	1,120	-	[2]
Total		$ 19,847	$ 20,967				

Rate Base Calculation:

Estimated Balance, 12/31/06	$ -	[1]
Estimated Balance, 12/31/07	$ -	[2]
Average 2007 Balance	$ -	([1]+[2])/2

Recorded balances, except as noted in footnote 1 below.

[1] Contribution and FAS 106 accrual amounts per instructions from HEI

Maui Electric Company, Ltd.
OPEB Balances
$ thousands

	12/31/2006	2007 Activity	12/31/2007	
Accumulated Postretirement Benefit Obligation	$ 24,878	$ 1,601	$ 26,479	[A]
Fair Value of Plan Assets	$ 18,341	$ 1,713	$ 20,054	[B]
Overfunded (Underfunded)	$ (6,537)	$ 112	$ (6,425)	[C] = [B] - [A]
Less: OPEB Liability (SFAS 106)	$ (1,344)	$ 224	$ (1,120)	[D]
AOCI Charge (Pre-Tax)	$ (5,193)	$ (112)	$ (5,305)	[E] = [C] - [D]
AOCI Tax Effect	$ 2,021	$ 44	$ 2,064	[F] = - [E] * tax rate
AOCI Charge	$ (3,172)	$ (68)	$ (3,241)	[G] = [E] + [F]
SFAS 106 OPEB Regulatory Asset	$ 1,344		$ 1,120	[H]
SFAS 158 OPEB AOCI Charge	5,193		5,305	[I]
OPEB Liability	(6,537)		(6,425)	[C]
Rate Base (excluding Deferred Tax impact)	-		-	[J] = [F] + [E] + [C]
Deferred Tax	-		-	[K] = - [J] * tax rate
Net Rate Base (including Deferred Tax impact)	-		-	[L] = [J] + [K]

Composite Effective Income Tax Rate 38.91%

Sources:
[A] & [B] Estimates per Watson Wyatt
[D] See MECO-929 pages 1 of 4 and 3 of 4
[F] See MECO-929 p. 3 of 4

Maui Electric Company, Limited
Unamortized SFAS 106 OPEB Regulatory Asset
($ in thousands)

RECORDED BALANCE - 12/31/05	1,568
Amortization - 2006	224
ESTIMATED BALANCE - 12/31/06	1,344
Amortization - 2007	224
ESTIMATED BALANCE - 12/31/07	1,120
AVERAGE 2007 BALANCE	1,232

NOTE: Totals may not add exactly due to rounding.

Maui Electric Company, Limited
OPEB Liability (SFAS 106)
($ in thousands)

RECORDED BALANCE as of 12/31/05	1,568
Add: FAS 106 Cost	1,072
Less: Executive Life Expense	(97)
Less: Contributions	(1,199)
ESTIMATED BALANCE - 12/31/06	1,344
Add: FAS 106 Cost	1,216
Less: Executive Life Expense	(96)
Less: Contributions	(1,344)
ESTIMATED BALANCE - 12/31/07	1,120
AVERAGE 2007 BALANCE	1,232

NOTE: Totals may not add exactly due to rounding.

Maui Electric Company, Ltd.
OPEB Balances - Rate Base Allocation by Division
($ thousands)

	Maui	Lanai	Molokai	MECO Consolidated	
12/31/06:					
Allocation basis:					
Employee Count	312	9	14	335	[A]
Allocation percent	93.1%	2.7%	4.2%	100.0%	
Amounts to be allocated:					
SFAS 106 OPEB Regulatory Asset	1,252	36	56	1,344	[B]
SFAS 158 OPEB AOCI Charge	4,836	140	217	5,193	[B]
OPEB Liability	(6,088)	(176)	(273)	(6,537)	[B]
Rate Base (excluding Deferred Tax impact)	-	-	-	-	[B]
12/31/07:					
Allocation basis:					
Employee Count	312	9	14	335	[A]
Allocation percent	93.1%	2.7%	4.2%	100.0%	
Amounts to be allocated:					
SFAS 106 OPEB Regulatory Asset	1,043	30	47	1,120	[B]
SFAS 158 OPEB AOCI Charge	4,941	143	222	5,305	[B]
OPEB Liability	(5,984)	(173)	(269)	(6,425)	[B]
Rate Base (excluding Deferred Tax impact)	-	-	-	-	[B]

Sources:
[A] MECO-1101, page 2 of 2
[B] MECO-929 page 2 of 2

MECO T-10
DOCKET NO. 2006-0387

TESTIMONY OF
JULIE K. PRICE

MANAGER
COMPENSATION & BENEFITS
HAWAIIAN ELECTRIC COMPANY, INC.

Subject: A&G Expenses
Employee Benefits

INTRODUCTION

Q. Please state your name and business address.

A. My name is Julie K. Price, and my business address is 220 South King Street, Honolulu, Hawaii.

Q. By whom are you employed and in what capacity?

A. I am employed by Hawaiian Electric Company, Inc. ("HECO"), and my title is Manager of Compensation & Benefits. My work experience and educational background are shown in MECO-1000.

Q. What will your testimony cover with respect to this case?

A. My testimony will cover Maui Electric Company, Limited's ("MECO") 2007 test year estimates for employee benefits expenses which are included in the total Administrative and General ("A&G") expenses, discussed by Mr. Lyle Matsunaga in MECO T-9. I will also cover the wage and salary increases and the Human Resources Suite computer software development project expenses included in the test year. Employee benefits and compensation programs for MECO's bargaining unit and non-bargaining unit (merit) employees are generated at HECO. While MECO handles the day-to-day administration of these programs which involve activities such as enrollment, premium payments and employee services, activities such as plan design, contracts, administrative systems and processes are handled by HECO.

DESCRIPTION OF ACCOUNTS

Q. In what account does MECO record employee benefit expenses?

A. Employee benefit expenses are recorded in account no. 926000, employee pension and benefits, which includes expenses related to providing pension and other employee benefits to employees. Benefits provided to regular employees are

described in MECO-WP-1050.

Q. How will you explain the costs of these employee benefits?

A. Since account no. 926000 includes a wide range of employee benefit expenses, our explanation will breakdown non-labor expenses into the following general categories to facilitate analysis:

Qualified Pension Plan
Non-Qualified Pension Plans
Other Postretirement Benefits
Long-Term Disability Benefits
Flex Credits Less Prices
Group Medical Plan Premiums
Group Dental Plan Premiums
Group Vision Plan Premiums
Group Life Insurance Plan Premiums
Other Benefits/Administration

Amounts by these categories are provided in MECO-1001. Labor costs to administer the programs are also included in account no. 926000. Labor rates used to determine labor costs for the test year are discussed by Mr. Lyle Matsunaga in MECO T-9.

Q. Are all employee benefits costs charged to operations and maintenance ("O&M") expense?

A. No. The employee benefits costs charged to O&M expense are a net amount resulting from:

(1) the total cost of employee benefits (account no. 926000), less

(2) the amounts transferred to construction and to other (account no. 926020).

The amount transferred to construction and to other (account no. 926020) is addressed by Mr. Lyle Matsunaga in MECO T-9.

ADJUSTMENTS/NORMALIZATIONS

Q. Were any adjustments made to employee benefits expenses for this rate case?

A. Yes. These adjustments are shown in MECO-1001, column (h). Rate case adjustments were made to delete certain benefit expense items in order to simplify and reduce the number of issues in this case. Other budget adjustments were made, as appropriate, to update the Operating Budget amounts with test year estimates made subsequent to the preparation of the budget amounts. Individual adjustments are discussed in the applicable areas of my testimony.

Q. What normalization adjustment was made to employee benefits expenses?

A. A normalization adjustment of negative $18,700 as shown in MECO-1001, column (i), was made to adjust the expenses related to the renegotiation of the contract with the union upon the expiration of the current contract in 2007. This normalization adjustment is discussed later in my testimony.

ALLOCATION TO DIVISIONS

Q. How were the employee benefit expenses allocated to each of the divisions – Maui, Lanai and Molokai?

A. Other than the expenses attributable to a specific division, employee benefit expenses were allocated based on the number of employees projected for each division for the test year – Maui 312, Molokai 14, and Lanai 9 (total employee count of 335). The allocation is shown in MECO-1001, page 2. Note that my testimony will discuss employee benefit expenses in total.

ACCOUNT NO. 926000 – EMPLOYEE PENSIONS AND BENEFITS

Qualified Pension Plan

Q. What expenses are included in this category?

A. Expenses related to providing pension benefits to MECO's employees are included in this category.

Q. How does the Company provide pension benefits to its employees?

A. The Company provides pension benefits to its employees by participating in the Retirement Plan for Employees of Hawaiian Electric Industries, Inc. and Participating Subsidiaries ("HEI Retirement Plan"), a qualified defined benefit pension plan. Although assets of the HEI Retirement Plan are commingled for all participating employers, assets and liabilities of each participating employer are separated for purposes of determining each participating employer's pension costs. The amounts provided in this rate case are the portion that applies to MECO only.

The pension plan is an integral part of the Company's compensation package and enhances the Company's efforts to attract and retain quality employees engaged in the provision of electric service to the public.

Q. What is the pension expense for the test year?

A. The pension expense for the test year related to the qualified pension plan is $3,804,000 as shown on MECO-1001, page 1.

Q. What areas of the pension expense will you cover?

A. My testimony will describe the factors that affect pension expense and the components of the net periodic pension cost.

The accounting and ratemaking treatment of pension costs are discussed by Mr. Lyle Matsunaga in MECO T-9.

Q. How is pension expense determined?

A. Watson Wyatt Worldwide, the plan's independent actuary, determines the pension expense to be recognized by the Company each year in accordance with the provisions of Statement of Financial Accounting Standards No. 87 (SFAS 87). Under SFAS 87, the Company's pension cost is referred to as the net periodic pension cost ("NPPC").

Q. What is the NPPC?

A. This is the amount that MECO is required to recognize on its financial statements as the cost of providing pension benefits to its employees for the year, which includes the capitalized amount and the amount charged to expense.

Q. How was the 2007 test year estimate determined?

A. Watson Wyatt Worldwide calculated the 2007 test year estimated NPPC by using employee data as of January 1, 2006, and applying assumptions such as mortality, retirement and termination, and assumed salary/wage increases. New participants were assumed to enter as of January 1, 2007. The estimated NPPC for 2006 and 2007 are shown in MECO-1002.

Q. Why was the budget estimate for pension expense updated?

A. The Operating Budget estimate for pension expense was updated to reflect the revised estimate by Watson Wyatt Worldwide.

Q. When will the actual 2007 NPPC be determined?

A. Watson Wyatt Worldwide will determine the actual 2007 NPPC in June 2007, based on actual employee data as of January 1, 2007.

Q. Has the Commission used the NPPC in determining the Company's revenue requirements in prior cases?

A. Yes. Since the adoption of SFAS 87 in 1987, the Company has consistently and

1 properly incorporated the NPPC in the forecast of employee benefits and the
2 Commission has accepted MECO's treatment of pension costs consistent with
3 SFAS 87 in Decision and Order No. 16922 (April 6, 1999), Docket No. 97-0346,
4 MECO's 1999 test year rate case. The Commission also accepted the treatment of
5 pension costs consistent with SFAS 87 in Decision and Order No. 18365
6 (February 8, 2001) in Docket No. 99-0207 (HELCO's 2000 test year rate case),
7 and in prior HECO rate cases, Decision and Order No. 11317 (Oct. 17, 1991) in
8 Docket No. 6531, Decision and Order No. 11699 (June 30, 1992) in Docket No.
9 6998, Decision and Order No. 13704 (December 28, 1994) in Docket No. 7700,
10 and Decision and Order No. 14412 (December 11, 1995) in Docket No. 7766.
11 The parties in HECO's 2005 test year rate case currently pending before the
12 Commission, Docket No. 04-0113, accepted HECO's pension expense estimates
13 which were based on the NPPC, determined in accordance with SFAS 87. See
14 Stipulated Settlement Letter filed September 16, 2005 and HECO RT-15 in
15 Docket No. 04-0113.
16 More recently, the Division of Consumer Advocacy stated the following in
17 its December 8, 2006 Statement of Position in Docket No. 05-0310: "It should be
18 made clear, however, that the Consumer Advocate does not object to the
19 Commission confirming that the Companies can continue to recover its annual
20 cost of providing pension benefits, as actuarially calculated under the provision of
21 SFAS No. 87, with the clarification that the Consumer Advocate reserves the right
22 to review the reasonableness of the pension expense included in the revenue
23 requirement for future rate case proceedings."
24 Q. Is the NPPC the amount that MECO is required to contribute to fund its pension
25 obligation?

A. No. The NPPC is the accrual cost that MECO needs to recognize for financial reporting purposes under SFAS 87. Minimum funding requirements for qualified pension plans are specified under the Employee Retirement Income Security Act of 1974 ("ERISA"), and maximum tax deductible amounts for federal income tax calculation purposes are specified by the Internal Revenue Code ("IRC"). MECO's minimum contribution funding requirement and maximum tax deductible contribution amounts are also calculated by Watson Wyatt Worldwide and provided in the actuarial valuation of the plan. The most recent valuation as of January 1, 2006, is provided in MECO-WP-1051.

Q. How does the Company fund the plan?

A. The Company funds the plan by making tax deductible contributions into a trust held by the plan's trustee, the Bank of New York. A pension investment committee ("PIC") is the named fiduciary for the plan and is responsible for overseeing the administration of the plan and management of plan assets.

Q. What contributions have been made to fund the plan?

A. Company contributions made to the trust since the adoption of SFAS 87 are shown in MECO-1003, line 8. The PIC's funding policy is to contribute amounts to the plan in accordance with the funding requirements of ERISA and the IRC. Within the minimum funding requirements of ERISA and the maximum deductible funding allowed under the IRC, the PIC considers the financial reporting of the plan. There are no specific regulations in financial reporting as to how a company should fund its pension plan. Generally, it has been the practice of the PIC to fund the NPPC; however, in 2003, 2004 and 2005, the PIC based its funding decision largely on the funded status of the plan (see MECO T-9 for a more detailed discussion of the funding in 2003, 2004 and 2005). As previously

noted, minimum funding requirements and maximum tax deductible amounts are determined by Watson Wyatt Worldwide.

Q. What accounts for the fluctuations in the NPPC?

A. Fluctuations are primarily attributable to changes in the discount rate and asset return rate assumptions and the actual investment returns. Assumption changes affect the various components of the NPPC resulting in an increase or decrease. In general, a decrease in the discount rate assumption alone results in increased projected liabilities and higher pension costs, and an increase in the asset return rate assumption alone results in lower pension costs due to higher projected investment returns. If actual investment returns are greater than the assumption, a reduction in pension costs will result and if actual returns are lower than the assumption, pension costs will increase. The NPPC, primary assumptions and actual investment returns since 1987 are shown in MECO-1003.

a. Factors Affecting Pension Expense

Q. What factors determine the Company's pension expense?

A. In general, pension expense is determined by the requirements of SFAS 87 and the following factors:

1) plan provisions,
2) demographic characteristics of employees covered by the plan,
3) performance of the pension fund investments over time,
4) actuarial assumptions, and
5) methodology to determine the value of plan assets.

1) Plan Provisions

Q. How do the provisions of the pension plan affect pension expense?

A. The provisions of the plan determine the amounts that the plan will have to pay to

employees when they become eligible to retire.

Q. How are pension plan provisions determined?

A. Pension plan provisions for the members of the bargaining unit are negotiated between the Company and the International Brotherhood of Electrical Workers ("IBEW"), Local 1260. A different benefit formula applies to merit employees, but other plan provisions are the same as those for bargaining unit employees. The main provisions of the HEI Retirement Plan are summarized on pages 30-33 of MECO-WP-1051.

2) Employee Demographics

Q. How do employee demographics affect pension expense?

A. Pension benefits are determined by the employees' years of service, age at retirement, and wage levels or average salary levels at the time of retirement. The length of benefit payments depends on how long the employee lives, whether or not the employee has a surviving spouse at the time of death and how long the surviving spouse lives. Therefore, demographics such as hire dates, birthdates, pay rates, sex and marital status are used to determine benefit levels. The Company provides Watson Wyatt Worldwide with information about employees (age, sex, status, years of service, pay/salary rates) as of January 1 of each year that is used to determine the pension expense for that year.

3) Pension Fund Performance

Q. How does the performance of the pension fund affect pension costs?

A. The Company is generally required to fund for each employee's benefit during the employee's career with MECO. The expected return on plan assets in the trust offsets the NPPC. As assets increase due to Company contributions and investment performance, the expected return will also increase and will reduce

pension cost. The Company's contributions are accumulated in a trust from which retirement benefits are paid. The fund is invested by professional investment managers. The trustee provides investment information to Watson Wyatt Worldwide.

4) Actuarial Assumptions

Q. Why are actuarial assumptions needed to estimate pension expenses?

A. The Company's ultimate cost for the pension plan will not be known until all benefits are paid to all participants and beneficiaries. During the life of the plan, benefits payable are estimated using certain assumptions which take into account probabilities for determining how many and at what time participants will become eligible for benefits, the size of the benefits expected to be paid, how long benefits will be paid and the current value of future benefits. The assumptions, together with participant data and plan provisions determine the liability of the plan from which pension cost is determined.

Q. What are some of the assumptions used?

A. There are demographic assumptions such as turnover rates, mortality, retirement ages, the number of married participants and economic assumptions such as discount rates, asset return rates and salary increase rates.

Q. How are these assumptions determined?

A. These assumptions are determined by the Company in conjunction with Watson Wyatt Worldwide and approved by the Company's independent auditor. Generally, demographic assumptions are based on the plan's historical experience. The discount rate assumption, however, is determined as required under SFAS 87 as a proxy for investment grade corporate bonds yield rates and the rate selected is approved by the Company's independent auditor.

5) Methodology for Determination of the Value of Plan Assets

Q. How is the value of plan assets determined?

A. The asset valuation method is selected by the Company in conjunction with Watson Wyatt Worldwide with the approval of the Company's independent auditor. Under the method used by MECO, the difference between the actual market value of assets and the expected market value of assets as of the valuation date is recognized over a five-year period – 0% in the first year and 25% in each of the next four years. The market value of assets as of the valuation date is adjusted for the unrecognized gains and losses from the prior four years to determine the market-related value of assets; the market-related value must be between 85% - 115% of the market value. If the market-related value of assets as determined above is less than 85% (or more than 115%) of the market value of assets, the market-related value of assets is set equal to 85% (or 115%) of the market value. As these gains and losses are recognized they are reflected in the market-related value and the accumulated gain/loss which determines, in part, the Amortization of Gain/(Loss) component of the NPPC.

b. Components of Pension Expense

Q. What are the components of the NPPC?

A. SFAS 87 specifies six basic components of the NPPC. The actual amount for 2005 and estimated for 2006 and 2007 as determined by Watson Wyatt Worldwide are as follows:

		2005 Actual	2006 Estimated	2007 Estimated
1)	Service Cost	$ 3,682,993	$ 3,953,326	$ 3,774,000
2)	Interest Cost	$ 5,824,357	$ 6,090,083	$ 6,534,000
3)	Expected Return on Assets	($8,183,632)	($7,954,424)	($7,557,000)
4)	Amortization of Transition Obligation	$ 0	0	0
		2005 Actual	2006 Estimated	2007 Estimated
5)	Amortization of Prior Service Cost	($ 106,824)	($ 106,824)	($ 106,000)
6)	Amortization of (Gain)/Loss	$ 528,230	$ 1,227,497	$ 1,159,000
	Total NPPC	$ 1,745,124	$ 3,209,658	$ 3,804,000

1) Service Cost

Q. What is the "service cost" component?

A. The service cost is the "actuarial present value" of the pension benefits earned during the year reflecting pay projected to retirement.

Q. How was the service cost component for the test year determined?

A. The actuary used certain assumptions to estimate the amount of benefits that the Company will pay for an employee attributable to service in the test year and determined the present value of these benefits (i.e., the service cost) assuming a discount rate of 6% for the test year.

2) Interest Cost

Q. What is the "interest cost"?

A. The interest cost component of the net periodic pension cost is the increase in the present value of the projected benefit obligation due to the passage of one year's time. The projected benefit obligation is an estimate of the pension benefits based

on service accrued as of the beginning of the test year and projected pay at retirement. Measuring the projected benefit obligation as a present value requires accrual of an interest cost at rates equal to the assumed discount rate.

3) Expected Return on Plan Assets

Q. How is the "expected return on plan assets" used in the computation of pension expense for the year?

A. The Company's overall pension costs are reduced by the earnings on the assets that have been accumulated with contributions to the pension fund. The return on plan assets includes the plan's dividend and interest income for the year, plus realized and unrealized appreciation less any depreciation in the market value of its investments and the expenses related to benefits paid, administration and investing the fund.

The test year estimate was based on an 8.5% assumption for the expected return on plan assets. This rate is intended to reflect the average long term rate of earnings expected on investments in the pension fund.

4) Amortization of Transition Obligation

Q. What is the "amortization of transition obligation"?

A. This is the difference between the fair market value of plan assets and the actuarial present value of pension benefits earned at the time of transition to the provisions of SFAS 87. MECO's transition obligation has been fully amortized as of December 31, 2003.

5) Amortization of Prior Service Cost

Q. What is the "amortization of prior service cost"?

A. This is the amortization of a change in the projected benefit obligation due to a plan amendment. Under SFAS 87 increases or decreases in the projected benefit

obligation due to a plan change should be amortized as a component of future pension costs over the average remaining service lives of active employees at the time of the amendment.

6) Amortization of (Gain)/Loss

Q. Please explain the amortization of gains and losses.

A. Gain and losses are changes in the amount of either the projected benefit obligation or the plan assets. These changes result from experience that is different from that expected and from changes in assumptions.

If accumulated gains and losses are greater than a "corridor" amount, a portion is recognized in the current year (determined as the excess over the corridor amortized over the average remaining service lives of active employees expected to receive benefits under the plan).

Q. What accounts for the increase in the NPPC from 2005 to 2007?

A. Referring to section b "Components of Pension Expense" of this testimony, the NPPC increased from an actual of $1,745,124 in 2005 to an estimated $3,804,000 for test year 2007, an increase of approximately $2,059,000. The increase in the Service Cost and Interest Cost components of approximately $801,000 is due mainly to an increase in the number of active participants and retirees as well as the effects of inflation. The Expected Return on Plan Assets component decreased by approximately $627,000 from 2005 to 2007 due mainly to a change in the asset return rate assumption from 9% to 8.5% and a decrease in the market related value due to asset losses in prior years. For example, the returns on market value for 2001 and 2002 were -10% and -14%, respectively, compared to the assumption of 10%. The Amortization of Gain/Loss component increased by approximately $631,000 from 2005 to 2007 which is attributed to asset losses and

losses from an increase in liabilities for active participants and retirees.

Q. Why was the asset return rate assumption changed?

A. The asset return assumption was changed based on analyses of the asset allocation and lower expected future returns on asset classes than previously projected.

Non-Qualified Pensions

Q. What do the expenses for non-qualified pensions represent?

A. The Company participates in the HEI Excess Pay Supplemental Executive Retirement Plan ("Excess Pay SERP"), and the HEI Excess Benefit Plan ("Excess Plan"). These non-qualified plans are described in the excerpt from the 2006 Proxy Statement attached as MECO-1004. Non-qualified benefits payable by the Excess Pay SERP and the Excess Plan arise for participants because their benefits under the qualified pension plan are restricted by IRS limits.

Q. What is the estimate for non-qualified pensions?

A. The estimate for non-qualified pensions is $1,000. This amount represents the expenses for pension benefits payable to certain executives.

Q. How were these expenses determined?

A. Watson Wyatt Worldwide determined these expenses using the same methodology that applies to the qualified pension plan in accordance with SFAS 87.

Q. How has MECO treated non-qualified pension expense for the test year?

A. In order to reduce the number of issues in this proceeding, non-qualified pension expense has been removed from test year expenses, as shown in MECO-1001, column h, line 2. The 2007 test year estimate for non-qualified pension expense is $0. However, the Company's position is that pension benefits are earned by all employees under the provisions of the plan and earned benefits should not be

treated differently for ratemaking purposes due to statutory limits. Therefore, the Company reserves the right to include non-qualified pension expense in its test year estimates in future rate cases.

Other Postretirement Benefits

Q. What expenses are included in the other postretirement benefits category?

A. Expenses related to providing postretirement benefits other than pensions to MECO's employees are included in this category.

Q. How does MECO provide postretirement benefits other than pensions to its employees?

A. MECO provides postretirement benefits other than pensions by participating in the Postretirement Welfare Benefits Plan for Employees of Hawaiian Electric Company, Inc. and Participating Employers ("HECO Postretirement Plan").

Q. What is MECO's 2007 test year estimate for other postretirement benefits, after applicable adjustments?

A. The Company's 2007 test year estimate for other postretirement benefits after adjustment, is $1,284,500 which includes the following:

Net periodic post retirement benefit cost	$ 1,215,000
Amortization of regulatory asset	224,000
Electric discount for retirees	(58,500)
Adjustment to delete life insurance for senior management	(96,000)
Total (MECO-1001, column j, line 3)	$ 1,284,500

Q. Please explain the reduction for the electric discount for retirees.

A. The Operating Budget amount includes a reduction of $58,500 (shown in the table above) to the other postretirement benefits cost which represents the estimate of

the electric discount provided to retirees since the electric discount is already reflected in the test year in the form of lower revenues. This amount was deleted from the postretirement benefit cost estimate to avoid duplication.

Q. Please explain the $97,000 adjustment to other postretirement benefits shown in MECO-1001, page 1, column (h), line 3.

A. The amount for other postretirement benefits was adjusted by 1) $1,000 to reflect the revised estimate by Watson Wyatt Worldwide, and 2) $96,000 (shown in the table above) to delete postretirement costs related to life insurance for MECO's senior management personnel in order to simplify and reduce the number of issues in this proceeding. These costs have been disallowed in prior cases. However, the Company reserves the right to propose inclusion of these expenses in its revenue requirement in future rate cases.

Q. How was the postretirement benefit expense for the test year determined?

A. Watson Wyatt Worldwide, the plan's actuary, determines the postretirement benefit expense to be recognized by the Company each year according to the provisions of the Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions ("SFAS 106"). The calculation of postretirement benefit expense under SFAS 106 is similar to the calculation of the NPPC under SFAS 87. Under SFAS 106, the Company's postretirement benefit cost is referred to as the net periodic postretirement benefit cost ("NPBC"). This is the amount that MECO must recognize on its financial statements as the cost of providing other postretirement benefits to its employees for the year, which includes the capitalized amount and the amount charged to expense. The estimated NPBC for 2006 and 2007 are shown in MECO-1005.

Q. When will the actual 2007 NPBC be determined?

A. The actual 2007 NPBC will be determined by Watson Wyatt Worldwide in June, 2007, based on employee data as of January 1, 2007.

Q. How has the Commission treated postretirement benefits costs for ratemaking purposes?

A. The Commission's Decision and Order No. 13659, (November 29, 1994), and letter, dated December 28, 1994, in Docket Nos. 7243 and 7233 (Consolidated) allowed MECO to adopt SFAS 106 in its entirety and to include in its rates the full cost of postretirement benefits other than pensions calculated pursuant to SFAS 106, effective January 1, 1995. In addition, the Commission allowed MECO to amortize the regulatory asset established for the deferral of postretirement benefit costs other than pensions for the period January 1, 1993 to December 31, 1994, over an 18-year period beginning January 1, 1995. The total amount being amortized is $4,031,000, or $224,000 per year.

Q. Does MECO fund the postretirement benefits?

A. Yes. As directed by the Commission in Decision and Order No. 13659, MECO funds the entire postretirement benefit costs to the maximum extent possible using tax advantaged funding vehicles.

Q. What are these funding vehicles?

A. In accordance with its funding plan submitted to the Commission on January 3, 1995, in Docket No. 7243, the Company makes contributions to trusts established to provide these benefits – two Voluntary Employees' Beneficiary Association ("VEBA") trusts (bargaining unit and non-bargaining). Additional contributions are also made to a special 401(h) account in the existing pension plan trust to provide postretirement medical benefits for non-bargaining employees. Although

the assets of these trusts are commingled for all participating employers, assets and liabilities of each participating employer are separated for purposes of determining postretirement benefit expenses and funding amounts for each participating employer. Maximum tax deductible contributions to the various funding vehicles are determined by Watson Wyatt Worldwide and included in its actuarial valuation of the plan. A copy of the January 1, 2006, valuation of the HECO Postretirement Plan is provided in MECO-WP-1052.

Q. How are the contributions in the trusts invested?

A. Assets are held by the plan's trustee, the Bank of New York. The PIC is the named fiduciary for the management of the plan assets. The PIC uses professional money managers to manage the plan assets.

a. Factors Affecting Postretirement Expense

Q. What factors determine the Company's postretirement benefits expense?

A. In general, postretirement benefits expense is determined by the requirements of SFAS 106 and factors which are similar to those that determine pension expense, and include the following:

1) plan provisions,
2) demographic characteristics of employees covered by the plan,
3) performance of the trust fund investments over time,
4) actuarial assumptions used in the calculations, and
5) methodology used to determine the value of plan assets.

1) Plan Provisions

Q. What are the postretirement benefits that MECO provides to its retirees?

A. MECO provides the following postretirement benefits to retirees:

1) medical/drug insurance,

2) partial reimbursement of Medicare Part B premiums,

3) vision insurance,

4) dental insurance,

5) life insurance, and

6) electric service discount.

A summary of these benefits is provided in MECO-WP-1052, pages 22-26.

Q. How are postretirement benefits determined?

A. Benefits for bargaining unit employees are negotiated between the Company and the IBEW, and are included in the Benefit Agreement by and between Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc, Maui Electric Company, Ltd., and Local 1260 of the IBEW. The Benefit Agreement is provided in MECO-WP-1053. The electric discount is included in an Agreement between Maui Electric Company Limited and Local 1260 of the IBEW. The page of the Agreement that includes the electric discount provision is provided in MECO-WP-1054. Merit employees are provided the same postretirement benefits provided to bargaining unit employees.

2) Employee Demographics

Q. How do employee demographics affect postretirement benefit expense?

A. Eligibility for postretirement benefits is determined by eligibility for pension benefits. The length of coverage depends on how long the employee lives and whether or not the employee has a spouse. Therefore, demographics such as hire dates, birthdates, and marital status are used to determine coverage. Watson Wyatt Worldwide uses the demographic information provided for the pension plan as of January 1 of each year to determine the postretirement benefit expense for that year.

1 3) Postretirement Fund Performance

2 Q. How does the performance of the postretirement investment funds affect
3 postretirement benefit expense?

4 A. The Company is generally required to recognize the cost of each employee's
5 postretirement benefits during the employee's career with MECO. The expected
6 return on plan assets in the trust offsets the NPBC. As assets increase due to
7 Company contributions and investment performance, the expected return will also
8 increase and will reduce postretirement benefit expense. The Company makes
9 contributions each year into the various funding vehicles previously mentioned to
10 fund postretirement benefits when employees retire. The fund is invested by
11 professional investment managers. The trustee (the Bank of New York) provides
12 investment information to Watson Wyatt Worldwide.

13 4) Actuarial Assumptions

14 Q. Are actuarial assumptions for determining the net periodic postretirement benefit
15 expense the same as those used to determine the NPPC?

16 A. Yes, the assumptions are generally the same. However, an additional assumption
17 for the medical trend rate is necessary for determining the net periodic
18 postretirement benefit expense. The medical trend rate and other assumptions
19 used to determine the 2006 NPBC are included in MECO-1003. Assumptions are
20 determined by the Company in conjunction with Watson Wyatt Worldwide and
21 approved by the Company's independent auditor.

22 Q. What is the assumption for the medical trend rate?

23 A. This assumption is an estimate of the annual rate of change in the cost of health
24 care benefits. Under SFAS 106, the assumption should consider estimates of
25 health care inflation, changes in health care utilization or delivery patterns,

technological advances, and changes in health care status of plan participants.

5) Method of Determination of the Value of Plan Assets

Q. How is the value of plan assets determined?

A. The asset valuation method is the same as that used for the pension plan.

b. Components of Net Periodic Postretirement Benefit Costs

Q. What are the components of the Company's net periodic postretirement benefit costs?

A. The components for the NPBC are the same as for the NPPC as previously described. The actual amount for 2005 and estimated for 2006 and 2007 as determined by Watson Wyatt Worldwide are as follows:

		2005 Actual	2006 Estimated	2007 Estimated
1)	Service Cost	$ 745,515	$ 678,935	$ 655,000
2)	Interest Cost	$ 1,464,562	$ 1,394,034	$ 1,510,000
3)	Expected Return	($ 1,385,949)	($ 1,399,327)	($ 1,391,000)
4)	Amortization of Transition Obligation	$ 356,158	$ 356,158	$ 356,000
5)	Amortization of Prior Service Cost	$ 0	$ 0	0
6)	Amortization of (Gains)/Loss	$ 74,456	$ 42,340	$ 85,000
	Total NPBC	$ 1,254,742	$ 1,072,140	$ 1,215,000

Q. Were changes made to the discount rate and asset return rate assumptions to estimate the NPBC for the test year?

A. Yes. The same discount rate and asset return rate assumptions for estimating the NPPC were made to estimate the NPBC for the test year.

Q. Has MECO made changes to reduce its postretirement benefit expense?

1 A. Yes. MECO significantly reduced postretirement benefit expense as a result of
2 the 1998 negotiations with the IBEW by changing plan provisions and placing
3 caps on future Company funded premiums. When premiums reach these caps,
4 retirees are required to contribute the difference between the actual premium rates
5 and the Company's caps in addition to the contributions required based on years
6 of service. In addition, changes made to the medical and drug plans for active
7 employees effective January 1, 2006, January 1, 2007, and January 1, 2008, also
8 apply to retirees. These changes increase retirees' cost sharing for medical and
9 drug costs (see MECO-WP-1053, pages 4-11).
10 Q. How has the Medicare Modernization Act ("MMA") affected MECO's
11 postretirement benefits?
12 A. The Medicare Prescription Drug Improvement and Modernization Act of 2003
13 ("Act") expanded Medicare to include coverage for prescription drugs. Under the
14 Act, employer-sponsored retiree drug plans that provide benefits equivalent to the
15 new Medicare Part D drug coverage are eligible to receive a subsidy of 28 percent
16 of the participants' drug costs between $250 and $5,000 per retiree, if the retiree
17 waives coverage under Medicare Part D beginning in 2006. In 2005, Watson
18 Wyatt Worldwide estimated that MECO's net periodic postretirement benefit
19 expense would decrease by approximately $63,000, based on a 6% discount rate,
20 due to the federal subsidy and the 2007 test year estimate of postretirement benefit
21 expense reflects the provisions of the Act.
22 Q. How will SFAS 158 affect the NPPC and NPBC?
23 A. The Financial Accounting Standards Board ("FASB") recently issued SFAS 158,
24 "Employer Accounting for Defined Benefit Pension and Other Postretirement
25 Plans, an amendment to FASB Statement Nos. 87, 88, 106 and 132(R)", which

1 includes changes in accounting for defined benefit pension and other
2 postretirement plans. The amendments relate to the balance sheet recognition of
3 the funded status of pension and other postretirement benefit plans. SFAS 158
4 will not change the components or the determination of the NPPC and NPBC.
5 Q. How will the Pension Protection Act affect the NPPC and NPBC?
6 A. The Pension Protection Act of 2006 ("Act"), which was enacted on August 18,
7 2006, makes significant changes to the rules dealing with minimum funding,
8 investments and tax qualification. The Act does not change the components or
9 determination of the NPPC and NPBC. Minimum funding rules of the Act will
10 become effective in 2008.
11 Long-Term Disability Benefits
12 Q. What is the test year estimate of long-term disability benefit expenses?
13 A. The 2007 test year estimate for this category of employee benefits expense is
14 $122,700, as shown in MECO-1001.
15 Q. What expenses are included in this category?
16 A. This category includes expenses with respect to providing long-term disability
17 ("LTD") benefits to MECO's employees.
18 Q. Please describe LTD benefits.
19 A. LTD benefits are income replacement benefits provided to employees in the event
20 of a non-occupational long-term disability that lasts beyond six months.
21 Q. How are LTD benefits provided to employees?
22 A. LTD benefits are provided through an insurance contract with MetLife. Effective
23 January 1, 2003, benefits under the contract are paid on a fully insured basis.
24 Prior to that, benefits were paid by the Company for the first five years of
25 disability and on a fully insured basis thereafter.

Q. Why was the change made from a partially self-insured basis to a fully insured basis?

A. The decision to change to a fully insured basis was made primarily due to administrative issues. Under the partially self-insured contract between MetLife and HEI, there was only one bank account covering HEI as well as the utility companies, making the tracking/reconciliation of claims paid by each company under the program extremely difficult due to timing differences. While partially self-insured arrangements were once prevalent, these arrangements are now the exception to MetLife's general administrative procedures. A fully insured arrangement with predictable costs was also a factor in making the change.

Q. How was the 2007 test year estimate calculated?

A. The calculation of long-term disability plan expenses is shown in MECO-1006. Since LTD premiums are based on employees' base pay, MECO used an average of annual salaries/wages as of September 1, 2006, multiplied by the average number of employees projected for the test year, and the 2007 premium rates to get $91,032. Estimated 2007 payments of $31,668, for claims still open from the partially self-insured portion prior to January 1, 2003, were added to the $91,032 to get $122,700.

Q. How was the average number of covered employees for the test year determined?

A. The average number of employees for the test year is the average of the number of employees in each month. The number of employees for the test year is discussed by Ms. Eileen Wachi in MECO T-11.

Q. Why were LTD premiums calculated using salaries and wages as of September 1, 2006?

A. Salaries and wages as of September 1, 2006 were the latest information available

when the LTD premium estimate was calculated for the rate case.

Q. Why are the premium rates different for bargaining unit and merit employees?

A. The difference is due to the difference in the benefit. The LTD benefit for bargaining unit employees is 60% of base pay, which is limited to the Prevailing Lineman Thereafter rate. The LTD benefit for merit employees is 65% of base pay. See MECO-1007 for 2007 premium rates.

Q. Does MECO provide other disability benefits to its employees?

A. Yes. In addition to LTD benefits, MECO provides other disability benefits such as workers' compensation and sick leave to employees.

Q. How do LTD benefits coordinate with other disability benefits?

A. The LTD plan is designed to provide a total level of disability income benefits to employees. Therefore, LTD benefits payable by the plan are offset by any other income received by the disabled employee from the Company. As such, if the employee is receiving sick leave or workers' compensation benefits, LTD benefits may be fully offset by these benefits.

Q. What is the reason for offsetting these benefits?

A. These benefits are offset because the plan is designed to encourage employees to return to work and keep disability related costs under control.

FLEXPLAN

Q. How does MECO provide group insurance benefits to its employees?

A. MECO provides group medical, dental, vision and life insurance benefits to its employees through a flexible benefits plan called "FlexPlan".

Q. What is the FlexPlan?

A. FlexPlan is a flexible benefit or cafeteria plan. The plan is designed to meet the requirements of Section 125 of the Internal Revenue Code ("IRC"). Under the

provisions of the plan, employees are given an allocation of flex credits each year by the Company. These flex credits are stated in units of flex "dollars". Employees then apply these credits toward the purchase of non-taxable benefits (health and life insurance) by electing from several available plans, each with a stated flex price in units of flex "dollars". To the extent that the employee's flex credits exceed the total of flex prices for health and life insurance purchases, remaining credits can be 1) used to purchase other optional benefits such as supplemental life insurance, dependent life insurance, and accidental death and dismemberment insurance ("AD&D"), 2) directed to spending accounts for health benefits not covered by insurance and/or dependent care expenses, or 3) returned to the employee. If the total of flex prices for the plans elected by the employee exceeds flex credits, the difference is withheld from the employee's pay on a pre-tax basis. Information provided to employees regarding the FlexPlan is provided in MECO-WP-1050.

Q. Why did MECO adopt the FlexPlan?

A. The plan was adopted in 1989 to provide employees with the flexibility of choosing benefit levels that meet individual needs while helping the Company to control future medical plan costs.

Q. How does the FlexPlan help to control future health plan costs?

A. Health plan costs are driven by plan provisions, plan utilization and the costs of services. FlexPlan offers employees an incentive to waive health plan coverage in return for flex credits that can be used to purchase other benefits. For example, employees covered by a spouse's medical plan may elect to waive medical plan coverage with MECO and use their flex credits to purchase additional life insurance, dependent life insurance or put the credits into a spending account to

apply towards non-covered medical or child care expenses. This results in lower utilization of medical plan benefits which results in lower premium rates.

Q. How is the Company's total cost for the FlexPlan determined?

A. The Company's cost is equal to:

Flex credits less Flex prices plus premiums (for all plans).

Flex Credits Less Prices

Q. What expenses are included in this category of employee benefit expenses?

A. This category includes the estimated difference between company-provided flex credits and flex prices for health and life insurance plans elected by employees.

Q. How was the 2007 test year estimate determined?

A. The Company provides basic flex credits for health coverage plus additional credits for life insurance coverage. Basic flex credits amount to $67.54 per 24 pay periods for each employee. Life insurance credits are equal to the premiums that provide each bargaining unit employee with coverage of one and one-half times the annual base pay, each merit employee with coverage of two times the annual salary, and senior management employees with coverage of $50,000.

The budget estimate for flex credits less prices is shown in MECO-1008 and was determined as follows:

1) The basic flex credit amount of $67.54 per employee per each of 24 pay periods was multiplied by 335, which is the estimated average number of covered employees for the test year, and then annualized to get $543,022 ($67.54 x 335 x 24 pay periods). This amount was added to the life insurance credit amount in (2) below.

2) The estimated credits for basic group life insurance was based on the September 1, 2006, average basic life credit per employee of $217 for

bargaining unit employees and $300 for merit employees multiplied by 235 bargaining unit employees and 101 merit employees, respectively, to get $81,295.

3) The sum of amounts from (1) and (2) above is $624,317 which was reduced by the $966,979 of total flex prices to get ($342,662). The total flex prices amount was estimated by applying the flex price for each plan to the associated projected number of employees for the test year based on the relative percentage of employee plan elections from the January 1, 2006, enrollment.

Q. How is the level of flex credits and prices determined?

A. The difference between flex credits and prices is the employee contributions. The maximum amount of employee contributions towards the health plan is negotiated between the Company and the IBEW for bargaining unit employees. See Benefits Agreement in MECO-WP-1053. The same contribution level applies to merit employees. Flex credits and prices are set such that the difference between the employer-provided flex basic credits and flex prices for health plan options will not exceed the maximum employee contributions. Attached as MECO-1009 is a schedule showing basic flex credits of $67.54 per pay period for each employee and the prices for medical plan options. As an example, each employee receives $67.54 in basic flex credits each pay period. The employee elects the PPP medical plan (family coverage) at a price of $86.49, the vision plan (family coverage) at a price of $3.00, and the Major Care Dental plan (family coverage) at a price of $6.05. Basic flex credits of $67.54 less flex prices of $95.54 ($86.49+$3.00+$6.05) equals ($28.00), which is the employee's contribution as indicated in the Benefit Agreement for the test year in MECO-WP-1053, page 19.

Employees also receive flex credits for life insurance. Basic credits and life insurance credits are added together and used towards purchasing all options under the FlexPlan. The basic flex credits have been at the same level since 1999, and the basic flex prices for health plan options have been revised annually as the maximum employee contribution amount increases.

Q. What does the test year estimate of ($342,700) indicate?

A. The negative amount indicates that flex prices of the options elected by employees for the test year will exceed the flex credits by $342,700, which is the estimate of the amount that will be deducted from employees' pay for the test year.

Group Medical/Dental/Vision Plans

Q. What do group medical/dental/vision plan expenses represent?

A. These expenses represent premiums for medical, dental and vision plans provided under the FlexPlan. MECO's test year 2007 estimates for these costs are as follows (see MECO-1001):

Medical	$1,942,100
Dental	$ 286,000
Vision	$ 45,200

Medical plans are provided by the Hawaii Medical Service Association ("HMSA") and the Kaiser Foundation Health Plan ("Kaiser"). The dental and vision plans are provided by the Hawaii Dental Service ("HDS") and the Vision Service Plan ("VSP"), respectively.

Q. What plan options are included under FlexPlan?

A. The following health plan options are available under FlexPlan:

1) HMSA Preferred Provider Plan ("PPP") with Vision Plan,

2) HMSA Health Plan Hawaii Plus ("HPH") with Vision Plan,

3) Kaiser Permanente Group Plan with Vision Plan,

4) HDS Major Care Plan,

5) Waiver of Medical Coverage, and

6) Waiver of Dental Coverage.

Q. How were the budget estimates for medical, dental and vision plan premiums determined?

A. The estimate for each plan was determined by using the estimated average number of employees covered for the test year (335), multiplied by the applicable premium rate for 2007 for each plan. The estimated number of employees covered in each plan was determined by applying the relative percentages of employee plan elections for the January 1, 2006, enrollment, to the average number of employees for the test year. The premium calculation worksheets are provided in MECO-1010 (medical), MECO-1011 (dental), and MECO-1012 (vision). Premium rates from the insurance companies are provided in MECO-1013.

Q. What has MECO done to control the increase in medical plan premiums?

A. From 2002-2007, MECO's average increase in rates for medical plans ranged from 1%-5% per year depending upon the plan. (See MECO-WP-1055). As a result of the latest negotiations with the IBEW in 2003, medical plan provisions change effective January 1, 2005, January 1, 2006, January 1, 2007, and January 1, 2008. These changes will require increased out-of-pocket contributions by employees and will result in reductions in premium rates. Medical plan rates effective January 1, 2007, are lower with these plan changes than they would have been without the changes.

Group Life Insurance

Q. What expenses are included in this category of employee benefit expenses?

A. This category includes premiums related to group life insurance (basic and supplemental coverage), dependent life, and accidental death & dismemberment insurance coverages as elected by employees under the FlexPlan.

Q. What is the Company's test year 2007 estimate for group life insurance expenses?

A. The test year estimate for group life insurance premiums is $280,700 (see MECO-1001).

Q. How was the test year estimate calculated?

A. Since group life insurance coverage is a multiple of employees' annual base pay, MECO used the average annual salaries/wages as of September 1, 2006, multiplied by one and one-half for bargaining unit employees and two for merit employees to get the basic coverage which was then multiplied by the projected number of bargaining unit and merit employees and the annual premium rate effective January 1, 2007. Supplemental life, dependent life and accidental death & dismemberment premiums were estimated using employee elections as of January 1, 2006, assuming that the elections by employees in the test year would remain the same on a percentage basis, and January 1, 2007 premium rates. The calculations are shown in MECO-1014.

Q. Why did you calculate group life insurance premiums for the test year using wages and salaries as of September 1, 2006?

A. Group life insurance premiums for employees covered under the Flex Plan on January 1, 2007, will be based on wages and salaries as of October 1, 2006. Wages and salaries as of September 1, 2006, were the latest information available when the group life insurance premium estimates for the rate case were calculated.

Other Benefits/Administration

Q. What is MECO's test year estimate for the other benefits/administration category of employee benefit expenses charged to account no. 926000?

A. The 2007 test year estimate for other benefits/administration is $417,800 (see MECO-1001), and includes the following:

Administration	$ 130,600
Training	$ 40,500
Human Resources (HR) Suite	$ 161,700
Misc./Other Benefits	$ 84,400
On-Cost	$ 600
Total	$ 417,800

Q. What adjustments were made to the expenses for other benefits/administration to arrive at MECO's test year estimates?

A. As shown in MECO-1001, column (h), line 10, a total adjustment of $97,400 was made in part to reduce the number of issues in this proceeding, i.e., the company deleted the negative $44,300 for the executive life program based on a prior Commission ruling (D&O No. 14412, filed on December 11, 1995 in Docket No. 7766, HECO's 1995 test year rate case), and $5,200 for the expenses related to 401(k) administration. However, the Company reserves the right to propose inclusion of these expenses in future rate cases. Additional adjustments to the Operating Budget were made to include $3,300, which represents the amortization for one month of the deferred costs for the HR Suite project, and $55,000 for premiums related to benefits for individuals who are not eligible to participate in the FlexPlan.

Q. Please explain the negative $18,700 normalization amount in MECO-1001,

column (i), line 10.

A. The amount reflects the normalization of estimated consulting costs for the negotiation of the Company's Benefit Agreement in 2007. The total estimated cost of $25,000 included in the 2007 Operating Budget is being normalized over four years, which is based on the term of the last agreement.

Administration

Q. What is included in administration costs?

A. These costs are related to expenses for administering the various benefits including legal and consulting fees, inter-company charges from HEI and HECO, computer systems and departmental costs.

Q. What is the test year estimate for administration costs?

A. The test year estimate is $130,600 which was determined based on prior year costs.

Training

Q. What is the test year estimate for training costs?

A. The test year estimate for training costs is $40,500 which is primarily related to the voluntary educational assistance ("VEA") program.

Q. What is the VEA program?

A. This program was initiated to encourage employees to pursue educational programs outside of work hours that directly or indirectly enhance their performance on the job. MECO provides 100% reimbursement upon the successful completion of approved courses taken on the employees' own time. The courses must be offered by an accredited school, college, or university, or any agency or association approved by the Human Resources Department.

Human Resources ("HR") Suite Project

Q. What is the HR Suite project?

A. The HR Suite project is a planned computer software development project that involves the purchase and installation of a human resources suite system. The system will improve integration and functionality for human resources data and systems, specifically for benefits, human resources, compensation and disability management administration. An application was filed with the Commission (Docket No. 2006-0003) on January 3, 2006 on behalf of Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and MECO (the "Companies"), requesting approval for the purchase and installation of Project P0001010, Human Resources Suite System, to defer certain computer software development costs, to apply an allowance for funds used during construction ("AFUDC") during the deferral period, to amortize the deferred costs (including AFUDC) over a twelve-year period and to include the unamortized deferred costs (including AFUDC) in rate base. This treatment is consistent with MECO's accounting policy for software development costs, as discussed by Mr. Lyle Matsunaga in MECO T-9.

Q. What is the status of the application?

A. The Consumer Advocate indicated in its Statement of Position filed on May 26, 2006 that it does not object to the approval of the application. However, it had several concerns and recommended several conditions to address those concerns. A settlement agreement between the Companies and the Consumer Advocate addressing those concerns was sent to the Commission on January 25, 2007.

Q. How will the project be implemented?

A. The project will be implemented in two phases. Phase 1 will begin following

approval by the Commission and includes the human resources and benefits functions, followed by Phase 2, which includes functions in areas such as employee self service, compensation, leave management administration, recruitment and training.

Q. When is each of the phases expected to be completed?

A. Phase 1 is currently expected to be completed in November 2007. Phase 2 is expected to be completed in May 2008.

Q. What are the total estimated costs of the HR Suite project?

A. MECO's portion of the total estimated costs for the project for all years by cost type, phase and stage is shown in MECO-1015, page 1, and MECO's estimated 2007 costs are shown on page 2 of MECO-1015. Test year 2007 costs include amounts to be deferred of $533,000 (including $469,000 for Phase 1, and $64,000 for Phase 2), amounts to be expensed as incurred of $188,000 ($182,000 - not reengineering and $6,000 - reengineering). Please note that these are updated cost estimates prepared subsequent to filing the application in Docket No. 2006-0003. These updated cost estimates were included with the settlement agreement filed with the Commission on January 25, 2007.

Q. What are the HR Suite costs included in account no. 926000 for the test year?

A. The expense as incurred amount included in account no. 926000 for the HR Suite project for test year 2007 is $188,000 (labor and non-labor). The deferred project costs are being amortized to account no. 926000. An adjustment of $3,300 was made to the 2007 Operating Budget to include the amortization of the deferred costs (including AFUDC) which will begin in December 2007 (see MECO 1001, page 1, column (h), line 10, note 1). Worksheets showing the calculation of the amortization amount, including AFUDC, are provided in MECO-WP-1057.

1 The unamortized deferred project costs as of December 31, 2007 is included
2 in rate base, as discussed by Ms. Gayle Ohashi, and shown in MECO-1501.
3 Miscellaneous Other Benefits
4 Q. Please describe the miscellaneous other benefits.
5 A. The majority of expenses included in the miscellaneous other benefits category are
6 premiums for long term care insurance, the Employee Assistance Program
7 ("EAP"), health and life insurance for coverage outside of the FlexPlan and other
8 wellness activities.
9 Q. What is the test year 2007 estimate for these costs?
10 A. The test year estimate is $84,400 which was determined based on historical costs.
11 Q. Please describe the long term care insurance benefit.
12 A. Effective July 1, 2004, MECO provides merit employees with a basic level of
13 long term care benefits through an insurance contract. In general, the basic level
14 provides a benefit of $1,000 per month for up to two years towards the cost of
15 confinement in a long-term care facility. Employees have the option to purchase
16 additional coverage at their cost. Upon retirement or other termination of
17 employment, employees may assume this cost to continue the coverage.
18 Q. What is MECO's estimated test year cost for this benefit?
19 A. The annual premium for the basic level of coverage is estimated at $6,000 based
20 on the current rate, which is not anticipated to change for the test year.
21 Q. What is the EAP?
22 A. The EAP provides employees with access to professional counselors for strictly
23 confidential personal consultations on work-related, personal or mental health
24 problems. Assessment for referral for substance abuse problems and resources to
25 address legal or financial difficulties are also available. Immediate family

members of employees are also eligible for these services.

Q. What is MECO's estimated test year cost for this employee benefit?

A. The test year estimate for EAP premiums is $8,250.

Q. How does the Company benefit from EAP services?

A. Supervisors can make EAP referrals for employees about job performance or workplace behavioral concerns. Group sessions are provided for crisis intervention when critical events occur in the workplace. These services help employees to focus on their job and increase productivity by limiting distractions and undue emotional or psychological stress.

Q. How does MECO provide EAP services to its employees?

A. EAP services are provided through a contract with an external organization.

Q. What benefit coverage is provided outside of the FlexPlan?

A. Employees who are on a leave of absence, on probation or are disabled are not eligible to participate in the FlexPlan and health and life insurance benefits for these individuals are provided outside of the FlexPlan. The Operating Budget was adjusted to include $55,000 for premiums related to these coverages. This amount was based on the actual cost for 2006 of $52,000.

Variances

Q. Please explain the major variances in account no. 926000 where 2007 budgeted amounts differ from 2005 recorded amounts by 10% or more.

A. The major variances are briefly explained in MECO-1016. More detailed explanations have been provided earlier in this testimony.

WAGE AND SALARY INCREASES

Bargaining Unit Wage Increases

Q. How are wage increases determined for bargaining unit positions for the test year?

A. Wage increases for bargaining unit positions are negotiated between the Company and the union. The current labor agreement expires on October 31, 2007. For purposes of the 2007 Operating Budget and the test year estimate, wages for bargaining unit positions were increased by 3.5% effective November 1, 2007. The percentage increase is reasonable based on industry experience and company position within its competitive market.

Merit Compensation Program

Q. How was the 2007 salary increase budget determined for merit positions?

A. The salary increase budget for merit positions is based on an assessment of MECO's competitive market, identification of MECO's position within this competitive market, market trends regarding future salary increases and an evaluation of internal "compression" with bargaining unit pay levels.

Q. How were merit salaries increased for the test year?

A. To estimate salaries for the test year, salaries as of April 30, 2007, were increased by 3.5% effective May 1, 2007, plus another .25% effective September 1, 2007. Individual salary increases within the approved budget are granted to employees based on performance, current salary position relative to peers, and current salary relative to comparable industry positions.

Q. How does MECO's budgeted salary increase compare with the salary increase plans at other companies?

A. While it is not possible to precisely forecast 2007 salary increase amounts industry-wide due to the normal compensation survey timing and data delays, the 3.5% merit increase budget is in line with the survey data currently available for 2007 projected salary increases. MECO uses survey data reflecting anticipated merit budget movements. Examples of survey data used are provided in MECO-

WP-1056. In addition, the continuing increase in overall economic activity and low unemployment in Hawaii provide strong indications that 2007 industry-wide salary increases will at least match 2006 salary increases of 3.5%.

Q. What is MECO's competitive market?

A. MECO's competitive market includes mainland utilities, Pearl Harbor, engineering firms and other large diversified local companies.

Q. How is MECO positioned within its competitive market?

A. MECO's pay is above average, but below the targeted market position within the general utility industry. In some instances, particularly where MECO competes for very specialized skills or skills that are in high demand, the Company has been unable to hire its first or second choice candidates.

Q. Are MECO's pay levels reasonable when compared to the pay levels of similar positions of other local employers?

A. Yes. MECO's overall base pay reflects the unique nature of working for a regulated utility that provides services to nearly every resident on the island of Maui, Lanai and Molokai. MECO's merit pay levels reflect the highly technical nature of the required engineering, operations and support positions and place a premium on hiring and retaining the best talent available.

Q. What are other forms of compensation?

A. Many companies are shifting more of their compensation increases into "at risk" programs whereby base salaries are increased at a conservative rate, while enabling employees to earn additional variable ("at risk") compensation depending on individual or business performance. This serves to restrain base salary increases and the associated benefits and tax-related costs, while providing employees an opportunity to maintain or increase their "total" compensation (base

plus variable). MECO will be reviewing its compensation structure to consider new programs for merit employees subsequent to the test year.

Executive Compensation

Q. Does MECO have a different form of compensation for its executive?

A. Yes. On one hand, MECO's executive compensation is managed similarly to the non-executive merit employees, with salary ranges pegged to market salaries in the general utility industry. In addition, however, MECO has an Executive Incentive Compensation Plan ("EICP") and a Long-Term Incentive Plan ("LTIP") which places a portion of the executive's compensation "at risk".

Q. Describe the "at risk" component of MECO's executive compensation program.

A. Generally, 20%-50% of the executive's total compensation is dependent upon successful performance as determined through its EICP and LTIP. If certain objectives are not met, the executive does not receive his full competitive level of cash compensation.

Q. Has the cost with respect to this component of executive compensation been included in the test year?

A. No. While MECO's position is that EICP and LTIP costs are necessary business expenses that provide MECO's executive with a competitive level of compensation, the Company has elected to reduce the number of issues in this proceeding by excluding these costs from its test year revenue requirements. The Company reserves the right, however, to propose inclusion of such compensation in its revenue requirement in future rate cases.

SUMMARY

Q. Please summarize MECO's 2007 test year expenses for employee benefits.

A. MECO's 2007 test year estimate for employee benefits charged to O&M is

$5,796,900, which includes expenses for providing employee benefits to active employees and retirees. Benefits include pensions, other postretirement benefits, long-term disability, health plans, life insurance plans, and other miscellaneous benefits. Benefits are negotiated with the IBEW for bargaining unit employees. Merit employees generally receive the same level of benefits, but with differences in retirement benefits, LTD, group life insurance and long term care. Costs are driven by three major items – pension benefits, other postretirement benefits, and medical premiums. Pension and postretirement benefits expenses were calculated by MECO's actuary using reasonable assumptions in accordance with the provisions of SFAS 87 and SFAS 106, which have been accepted by the Commission for ratemaking purposes in prior rate cases. Pension and postretirement benefits expenses have varied in the past due largely to varying actual investment returns and changes in assumptions. MECO has consistently negotiated revisions to medical plans to manage company costs. Estimates for other benefits have been made using reasonable assumptions and the most recent data available at the time the estimates were developed.

Q. Why is MECO's total compensation package a necessary business expense?

A. MECO's mission is to provide reliable electrical service to its customers. While MECO's power plants and equipment are necessary assets, the mission cannot be accomplished without MECO's employees. Employee benefits and wages are essential to MECO's ability to attract and retain a highly qualified workforce. Retention of such a workforce is critical to MECO's ability to fulfill its mission. Wages and benefits are negotiated with the union and management has been successful in negotiating changes that help to manage costs. Merit increases are in line with the market.

Q. Does this conclude your testimony?

A. Yes, it does.

HAWAIIAN ELECTRIC COMPANY, INC.

JULIE K. PRICE

EDUCATIONAL BACKGROUND AND EXPERIENCE

Business Address:	Hawaiian Electric Company, Inc. 220 South King Street Honolulu, Hawaii 96813
Current Position:	Manager, Compensation & Benefits
Prior Positions:	1970 – 1989 Manager, Employee Benefits Administrator, Employee Benefits Secretary, Employee Benefits Dillingham Construction Corporation Pleasanton, CA Dillingham Corporation Honolulu, HI
Professional Registration:	Certified Employee Benefits Specialist CEBS, The Wharton School, University of Pennsylvania. Fellow, International Society of Certified Employee Benefits Specialist.
Years of Service:	17
Previous Testimony:	Docket Nos. 7243 and 7233 (Consolidated) - Postretirement Benefits Other Than Pensions-Costs related to these benefits and efforts to control these costs. Docket Nos. 7700, 7766, 04-0113, 2006-0386 – HECO; A&G Expenses-Employee Benefits. Docket Nos. 96-0040, 97-0346, – MECO; A&G Expenses-Employee Benefits. Docket Nos. 94-0140, 99-0207, 05-0315 – HELCO; A&G Expenses-Employee Benefits.

MAUI ELECTRIC COMPANY, LTD.
ADMINISTRATIVE AND GENERAL EXPENSES - Employee Benefits
($100s)

Line	Account Description	(a) Recorded 2001	(b) 2002	(c) 2003	(d) 2004	(e) 2005	(f) Budget 2006	(g) Budget 2007	(h) Adj	(i) Normali-zation	(j) TY Est. 2007
	926000 Employee Pensions and Benefits										
1	Qualified Pension Plan	-2,278.7	-1,495.3	2,127.2	1,015.9	1,641.7	3,449.5	3,850.0	-46.0 [1]		3,804.0
2	Non-Qualified Pension Plans	1.4	1.6	-24.2	3.1	2.0	2.0	1.0	-1.0 [2]		0.0
3	Other Postretirement Benefits	562.5	848.0	1,438.6	1,308.3	1,478.7	1,453.5	1,381.5	-97.0 [1 2]		1,284.5
4	Long-Term Disability Benefits	72.5	121.1	71.8	115.7	133.5	130.9	122.7			122.7
5	Flex Credits Less Prices	-180.6	-199.2	-212.8	-225.1	-237.8	-328.1	-342.7			-342.7
6	Group Medical Plan	1,542.4	1,615.0	1,469.3	1,762.9	1,728.3	1,850.1	1,942.1			1,942.1
7	Group Dental Plan	211.4	254.9	233.7	235.9	251.0	287.0	286.0			286.0
8	Group Vision Plan	50.0	49.4	47.1	46.4	38.4	44.4	45.2			45.2
9	Group Life Insurance Plan	161.3	173.4	129.1	179.3	210.2	286.4	280.7			280.7
10	Other Benefits/Administration	222.1	54.9	-98.1	38.9	64.8	350.0	339.1	97.4 [1 2]	-18.7 [3]	417.8
11	Subtotals: Non-Labor	364.3	1,423.8	5,181.7	4,481.3	5,310.8	7,525.7	7,905.6	-46.6	-18.7	7,840.3
12	Labor	44.6	48.4	44.2	37.3	49.3	66.1	80.1			80.1
13	Total 926000	408.9	1,472.2	5,225.9	4,518.6	5,360.1	7,591.8	7,985.7	-46.6	-18.7	7,920.4
	926010 Employee Benefits Flex Credits										
14	Subtotals: Non-Labor	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15	Labor	-2.0	0.0	0.0	0.0	83.0	0.0	0.0	0.0	0.0	0.0
16	Total 926010	-2.0	0.0	0.0	0.0	83.0	0.0	0.0	0.0	0.0	0.0
17	926020 Employee Benefits Transfer	-68.4	-426.1	-1,526.0	-1,482.6	-1,626.2	-2,065.4	-2,237.4	113.9		-2,123.5
18	Grand Total Charged to O&M	338.5	1,046.1	3,699.9	3,036.0	3,816.9	5,526.4	5,748.3	67.3	-18.7	5,796.9

[1] Updated estimates:
Line 1: -$46.0 Qualified pension
Line 3: -$ 1.0 Other postretirement benefits
Line 10: $ 3.3 HR Suite amortization
$55.0 Premium for participants not in FlexPlan

[2] Deleted to reduce number of issues:
Line 2: -$ 1.0 Non-qualified pension
Line 3: -$96.0 Executive life insurance
Line 10: $44.3 Executive life insurance
-$ 5.2 401(k) administration

[3] Normalized consulting costs for negotiations

Source: Cols a-g, Lines 11-17, MECO-WP101(B), pages 19-20.

Line	Account Description	(j) TY Est. 2007	(k) Lanai	(l) Molokai	(m) Maui
	926000 Employee Pensions and Benefits				
1	Qualified Pension Plan	3,804.0	102.2	159.0	3,542.7
2	Non-Qualified Pension Plans	0.0	0.0	0.0	0.0
3	Other Postretirement Benefits	1,284.5	34.5	53.7	1,196.3
4	Long-Term Disability Benefits	122.7	3.3	5.1	114.3
5	Flex Credits Less Prices	-342.7	-9.2	-14.3	-319.2
6	Group Medical Plan	1,942.1	52.2	81.2	1,808.8
7	Group Dental Plan	286.0	7.7	12.0	266.3
8	Group Vision Plan	45.2	1.2	1.9	42.1
9	Group Life Insurance Plan	280.7	7.5	11.7	261.5
10	Other Benefits/Administration	417.8	9.7	15.2	392.9
11	Subtotals: Non-Labor	7,840.3	209.1	325.4	7,305.7
12	Labor	80.1	2.2	3.3	74.6
13	Total 926000	7,920.4	211.3	328.7	7,380.3
	926010 Employee Benefits Flex Credits				
14	*Subtotals: Non-Labor*	0.0	0	0	0
15	Labor	0.0	0	0	0
16	Total 926010	0.0	0	0	0
17	926020 Employee Benefits Transfer	-2,123.5	-57.0	-88.7	-1,977.8
18	Grand Total Charged to O&M	5,796.9	154.3	240.0	5,402.5

2006 NPPC - Components

5.75% Discount Rate
9.0% Asset Return Assumption

Pension	2006 NPPC
	MECO
Service Cost	3,953,326
Interest Cost	6,090,083
Exp Asset Return	(7,954,424)
Amort of Tr Oblig	0
Amort of Pr Svc Cost	(106,824)
Amort of (Gain)/Loss	1,227,497
Total	3,209,658

INFORMATION FOR COMPANIES OTHER THAN MECO DELETED

2007 Estimated NPPC - Components

Pension	2007 Estimated NPPC

	MECO
6.0% Discount Rate, 8.5% Asset Return Assumption	
Service Cost	3,774,000
Interest Cost	6,534,000
Exp Asset Return	(7,557,000)
Amort of Tr Oblig	0
Amort of Pr Svc Cost	(106,000)
Amort of (Gain)/Loss	1,159,000
Total	3,804,000

INFORMATION FOR COMPANIES OTHER THAN MECO DELETED

Maui Electric Company Limited
Pension & OPEB Costs
1987-2007

Line		(a) 1987 Actual	(b) 1988 Actual	(c) 1989 Actual	(d) 1990 Actual	(e) 1991 Actual	(f) 1992 Actual	(g) 1993 Actual	(h) 1994 Actual	(i) 1995 Actual	(j) 1996 Actual
1	Qualified Plan	1,375,125	1,166,960	1,172,691	1,785,189	1,644,431	1,864,307	1,798,261	2,139,975	1,441,000	1,970,234
2	Non-Qualified Plans	-	-	-	-	-	-	4,295	-	19,986	38,734
3	Total	1,375,125	1,166,960	1,172,691	1,785,189	1,644,431	1,864,307	1,802,556	2,139,975	1,460,986	2,008,968
4	OPEB - FAS 106	NA	NA	NA	NA	NA	NA	2,684,351	2,451,692	2,616,874	2,579,997
5	OPEB - Reg Asset Amort [1]									412,510	223,996
6	Total	NA	NA	NA	NA	NA	NA	2,684,351	2,451,692	3,029,384	2,803,993
7	OPEB - Executive Life Only	NA	NA	NA	NA	NA	NA	NA	NA	254,843	71,936
	Assumptions:										
	Discount Rate	7.50%	8.00%	8.50%	8.50%	8.50%	8.50%	8.50%	7.00%	8.00%	7.00%
	Asset Return Rate	7.50%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	9.00%	9.00%
	Medical Trend	NA	NA	NA	NA	NA	NA	NA	NA	7.50%	6.50%
	Dental Trend	NA	NA	NA	NA	NA	NA	NA	NA	6.00%	5.00%
	Vision Trend	NA	NA	NA	NA	NA	NA	NA	NA	5.00%	4.00%
	Actual Returns for Valuation	13.15%	0.58%	9.35%	0.78%	13.48%	23.51%	11.62%	11.27%	8.96%	11.27%
	Market Related Value Return	3.17%	4.34%	6.32%	3.42%	8.81%	12.06%	27.58%	10.49%	7.60%	13.06%
	Market Value Return	0.55%	6.89%	22.00%	-1.67%	25.93%	4.20%	16.16%	-2.77%	26.47%	13.92%
8	Contrib.To Pension Trust	1,255,125	1,286,960	1,271,530	1,686,350	1,644,431	1,863,102	1,798,261	2,138,451	1,441,000	1,970,234
9	Contrib.To OPEB Trusts	NA	NA	NA	NA	NA	NA	451,487	785,711	2,452,944	2,732,057

[1] Regulatory asset amortization began in January 1995

Maui Electric Company, Limited
Pension & OPEB Costs
1987-2007

Line		(k) 1997 Actual	(l) 1998 Actual	(m) 1999 Actual	(n) 2000 Actual	(o) 2001 Actual	(p) 2002 Actual	(q) 2003 Actual	(r) 2004 Actual	(s) 2005 Actual	(t) 2006 Est.	(u) 2007 TY Est.
1	Qualified Plan	1,754,518	949,280	591,348	(2,266,330)	(2,278,694)	(1,495,267)	2,127,153	1,015,920	1,641,724 [3]	3,209,658	3,804,000
2	Non-Qualified Plans [2]	10,010	2,514	1,184	1,951	1,381	1,592	(24,201)	3,103	2,025	10,481	1,000
3	Total	1,764,528	951,794	592,532	(2,264,379)	(2,277,313)	(1,493,675)	2,102,952	1,019,023	1,643,749	3,220,139	3,805,000
4	OPEB - FAS 106	2,505,017	1,586,149	642,968	293,137	338,534	624,007	1,223,819	1,084,311	1,254,742	1,072,140	1,215,000
5	OPEB - Reg Asset Amort [1]	223,996	223,996	223,996	223,996	223,996	223,996	223,996	223,996	223,996	223,996	223,996
6	Total	2,729,013	1,810,145	866,964	517,133	562,530	848,003	1,447,815	1,308,307	1,478,738	1,296,136	1,438,996
7	OPEB - Executive Life Only	80,079	59,546	61,061	66,212	71,588	71,902	89,973	91,145	95,563	96,896	96,000
	Assumptions:											
	Discount Rate	7.00%	7.00%	6.50%	7.75%	7.50%	7.25%	6.75%	6.25%	6.00%	5.75%	6.00%
	Asset Return Rate	9.00%	10.00%	10.00%	10.00%	10.00%	10.00%	9.00%	9.00%	9.00%	9.00%	8.50%
	Medical Trend	6.50%	5.50%	5.00%	6.25%	6.00%	10%-4.75%	9.25%-4.25%	10%-4.25%	10%-5%	10%-5%	10%-5%
	Dental Trend	5.00%	4.00%	3.50%	4.75%	4.50%	4.75%	4.25%	4.25%	5.00%	5.00%	5.00%
	Vision Trend	4.00%	3.50%	3.00%	4.25%	4.00%	3.75%	3.25%	3.25%	4.00%	4.00%	4.00%
	Actual Returns for Valuation	13.49%	15.03%	25.19%	15.03%	13.45%	-14.69%	2.29%	8.67%	8.68%	Available	
	Market Related Value Return	14.09%	15.23%	28.31%	11.85%	5.04%	-14.52%	22.89%	2.58%	0.69%	in	
	Market Value Return	15.23%	16.38%	30.10%	-3.32%	-10.26%	-13.90%	23.30%	10.13%	7.38%	June, 2007	
8	Contrib.To Pension Trust	1,754,518	95,249	0	0	0	0	3,223,267	4,580,816	1,000,000	0	0
9	Contrib.To OPEB Trusts	2,648,934	1,750,599	805,903	450,921	490,942	776,101	1,357,842	1,217,162	1,383,175	1,199,240	1,343,996

[1] Regulatory asset amortization began in January 1995
[2] Non-qualified plan expenses removed from test year estimate
[3] Includes adjustments for Molokai pension accrual booked in prior years.

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6/21/2004

Pension Plans

All regular employees (including the Named Executive Officers) are covered by noncontributory, qualified defined benefit pension plans. The plans provide retirement benefits at normal retirement (age 65), reduced early retirement benefits and death benefits. The Named Executive Officers except Ms. Lau participate in the Retirement Plan for Employees of HEI and Participating Subsidiaries ("HEI Plan"). Ms. Lau participated in the HEI Plan while employed by HECO and HEI and is currently a participant in the American Savings Bank Retirement Plan ("ASB Plan"). Mr. Clarke and Mr. May also participate in the HEI Supplemental Executive Retirement Plan ("HEI SERP") and Ms. Lau also participates in the ASB Supplemental Retirement, Disability, and Death Benefit Plan ("ASB SERP") (see pages 27 and 28).

In December 2005 Mr. Yeaman was added as a participant to the HEI SERP effective April 1, 2006 or such later date when the plan is formally amended to comply with the requirements of IRC Section 409A.

Some of the Named Executive Officers are affected by Internal Revenue Code ("IRC") limitations on qualified plan benefits. They are, therefore, also covered under the HEI Excess Benefit Plan ("Excess Plan") and the HEI Excess Pay Supplemental Executive Retirement Plan ("Excess Pay SERP"), which are noncontributory, nonqualified plans.

The following table shows estimated annual pension benefits payable at retirement under the HEI Plan, Excess Plan and Excess Pay SERP based on base salary that is covered under the three plans and years of service with the Company and other participating subsidiaries.

PENSION PLAN TABLE

	Years of Service						
Remuneration	5	10	15	20	25	30	35
$250,000	25,500	51,000	76,500	102,000	127,500	153,000	167,500
300,000	30,600	61,200	91,800	122,400	153,000	183,600	201,000
350,000	35,700	71,400	107,100	142,800	178,500	214,200	234,500
400,000	40,800	81,600	122,400	163,200	204,000	244,800	268,000
450,000	45,900	91,800	137,700	183,600	229,500	275,400	301,500
500,000	51,000	102,000	153,000	204,000	255,000	306,000	335,000
550,000	56,100	112,200	168,300	224,400	280,500	336,600	368,500
600,000	61,200	122,400	183,600	244,800	306,000	367,200	402,000
650,000	66,300	132,600	198,900	265,200	331,500	397,800	435,500
700,000	71,400	142,800	214,200	285,600	357,000	428,400	469,000
750,000	76,500	153,000	229,500	306,000	382,500	459,000	502,500
800,000	81,600	163,200	244,800	326,400	408,000	489,600	536,000

The HEI Plan provides a monthly retirement pension for life. Benefits are determined by multiplying years of credited service and 2.04% (not to exceed 67%) times the participant's Final Average Compensation (average base salary as shown for the Named Executive Officers in the Summary Compensation Table for any consecutive 36 months out of the last 10 years that produces the highest monthly average) without any offset for social security. As of December 31, 2005, the Named Executive Officers had the following number of years of credited service under the HEI Plan: Mr. Clarke, 18 years; Mr. May, 13 years; Ms. Lau, 15 years; Mr. Yeaman, 3 years; and Ms. Wong, 15 years.

Benefits under the ASB Plan are determined by multiplying years of credited service (not to exceed 35 years) and 1.5% times the participant's Final Average Compensation (average compensation as shown for Ms. Lau in the Summary Compensation Table for the highest five of the last ten years of credited service) without any offset for social security. As of December 31, 2005, Ms. Lau had six years of credited service under the ASB Plan.

Section 415 of the IRC limits the retirement benefit that a participant can receive from qualified retirement plans such as the HEI Plan and ASB Plan. The limit for 2005 was $170,000 ($175,000 for 2006) per year at age 65. The Company adopted the Excess Plan to provide benefits that cannot be paid from the qualified plans due to this maximum limit, based on the same formula as the qualified plans.

IRC Section 401(a)(17) limits a participant's compensation that can be recognized under qualified retirement plans. The limit on the maximum compensation for 2005 under IRC Section 401(a)(17) was $210,000 ($220,000 for 2006). The Company adopted the Excess Pay SERP to provide benefits that cannot be paid from the qualified plans due to the maximum compensation limit under IRC Section 401(a)(17), based on the same formula as the qualified plans.

The Company also maintains two supplemental executive retirement plans ("HEI SERP" and "ASB SERP") for certain executive officers. Mr. Clarke and Mr. May participate in the HEI SERP and Ms. Lau participates in the ASB SERP. Mr. Yeaman will participate in the HEI SERP effective the later of April 1, 2006 or the date the plan is amended for IRC Section 409A. Benefits under the HEI SERP and ASB SERP are in addition to qualified retirement benefits payable from the HEI Plan, the ASB Plan and Social Security.

Under the HEI SERP, the executive is eligible to receive, at age 60, a benefit of up to 60% (depending on years of credited service) of the participant's average compensation, which includes amounts received under the annual EICP in the highest three out of the last five years of service. The benefit payable under the HEI SERP is reduced by the participant's primary Social Security benefit and the benefit payable from the HEI Plan, but in no event is it less than the benefit that would be payable under the HEI Plan before any IRC Sections 415 and 401(a)(17) reductions. The HEI SERP provides for reduced early retirement benefits at age 50 with 15 years of service or age 55 with five years of service, and survivor benefits in the form of an annuity in the event of the participant's death after becoming eligible for early retirement. Based on Mr. Clarke's announced retirement date of May 31, 2006, the overall total retirement benefits payable to Mr. Clarke in the form of a straight life annuity at age 63 is $603,011, based on his current compensation level ($92,608 from the HEI Plan, $510,403 from the HEI SERP, and no amount owing from the Excess Pay SERP or the Excess Plan). The overall benefits payable to Mr. May in the form of a straight life annuity projected to age 65 is $288,226, based on his current compensation level ($86,137 from the HEI Plan, $65,288 attributed to the HEI SERP, $136,801 calculated under the Excess Pay SERP and no amount owing from the Excess Plan).

The ASB SERP provides a benefit at age 65 of up to 60% (depending upon years of service) of the participant's average compensation (including 50% of the amounts received under the annual EICP) in the highest five consecutive years out of the last ten years of service, reduced by the participant's primary Social Security benefit and the benefit payable from the ASB and HEI Plans, but in no event is it less than the benefit that would be payable under the ASB Plan before any IRC Sections 415 and 401(a)(17) reductions. The ASB SERP also provides for termination and survivor benefits in certain circumstances. The overall total retirement benefits payable to Ms. Lau in the form of a straight life annuity projected to age 65 is $530,573, based on her current compensation level

($54,600 from the ASB Plan, $64,974 from the HEI Plan, $410,999 calculated under the HEI Excess Pay SERP and no amounts owing under the Excess Plan or the ASB SERP).

2006 NPBC - Components

5.75% Discount Rate
9.0% Asset Return Assumption

OPEB	2006 Net Periodic Postretirement Benefit Cost	
	Total	Exec Life ONLY
	MECO	MECO
Service Cost	678,935	5,146
Interest Cost	1,394,034	49,522
Exp Asset Return	(1,399,327)	0
Amort of Tr Oblig	356,158	42,228
Amort of Pr Svc Cost	0	0
Amort of (Gain)/Loss	42,340	0
Total	1,072,140	96,896

INFORMATION FOR COMPANIES OTHER THAN MECO DELETED

2007 Estimated NPBC - Components

OPEB	2007 Estimated NPBC	
	Total	Exec Life ONLY
	MECO	MECO
6.0% Discount Rate, 8.5% Asset Return Assumption		
Service Cost	655,000	5,000
Interest Cost	1,510,000	49,000
Exp Asset Return	(1,391,000)	0
Amort of Tr Oblig	356,000	42,000
Amort of Pr Svc Cost	0	0
Amort of (Gain)/Loss	85,000	0
Total	1,215,000	96,000

INFORMATION FOR COMPANIES OTHER THAN MECO DELETED

Maui Electric Co., Ltd.

CALCULATION OF LONG TERM DISABILITY

2007

					MERIT		BU	TOTAL
Average Salary for	*January*	*2007*	*Enrollment*		*76,224*		*62,195*	
				x	1.0000			
					76,224			
Salary/Wage Adjustment				x	1.0000	x	1.0000	
					76,224		62,195	
Projected No. of Merit and BU Employees				x	101	x	235	
Projected Compensation for	2007				7,698,624		14,615,825	
2007	Premium rate	BU	$0.37					
	per $100 Compensation	MERIT	$0.48	x	$0.0048	x	$0.0037	
					$36,953.40		$54,079	91,032
				ASA admin fee plus banking fees				+ 0
				Annual Premium				91,032
Plus Claims	(incurred as of		06/30/06	& annualized)				+ 31,668
						2007	Forecast	122,700

780 PHE NE NPFZZZZZ 509 **122,700**

No. of Merit Employees	30%
No. of BU Employees	70%

MECO2007_335 (rate case adj).xls[LTD]
10/2/2006

AON

Employee Benefits Consulting

Lorraine P. Nakasone
Consultant
Aon Consulting
Direct Line (808) 540-4357
E-mail lorraine_nakasone@aon.com

August 29, 2006

Mr. John Panosh
Account Executive
MetLife
4380 SW Macadam Avenue, Suite 200
Portland, OR 97201

RE: HAWAIIAN ELECTRIC INDUSTRIES – PROPOSAL ACCEPTANCE FOR 2007

Dear John:

We are pleased to inform you of Hawaiian Electric Industries, Inc.'s decision to accept MetLife's proposal, which would essentially break open HEI's existing 2-year agreement. HEI has agreed to accept MetLife's proposal of an overall -6.0% decrease, effective January 1, 2007, guaranteed for two years. The accepted rates are as follows:

Non-Bargaining Employees:	$.48 per $100 of covered wages
Bargaining Employees:	$.37 per $100 of covered wages

The next scheduled renewal as January 1, 2009.

Additionally, please advise what is needed to begin tracking the experience (premiums and claims) separately between the Non-Bargaining and Bargaining employees. This information will help ensure rates applied to each group is appropriate based on each group's specific experience. While we understand both employee groups are combined for total case underwriting, future renewal rates for each group should be weighted based on each group's experience.

We appreciate the steps MetLife has taken in evaluating and modifying rating components for a more appropriate and fair rate position that is beneficial to our mutual client.

Please feel free to contact me should you have any questions.

Sincerely,

Lorraine P. Nakasone
Consultant

AUG 3 0 2006
BY

cc: Debi Rodriquez/MetLife
Myra O'Brien, Julie Price and Phyllis Hanta/ HEI
Malcolm Tajiri/Aon Consulting

Maui Electric Co., Ltd.

Projected FlexPlan & Premium Expense

2007

CREDITS		PRICES		Enrollment as of Jan-06	No. of Emp	Amount		CR - PR
Basic	543,022							
Life	81,295							
Total	624,317							
	778 PHE NE PNFZZZZZ 900							
		PPP	Single	7.0%	23.5	38,172		
			S. Parent	2.7%	9.0	15,658		
			Couple	11.1%	37.2	71,835		
			Family	21.1%	70.7	146,756		
		HPH Plus	Single	2.3%	7.7	12,507		
			S. Parent	1.0%	3.4	5,915		
			Couple	3.0%	10.1	19,504		
			Family	14.8%	49.6	102,958		
		SUBTOTAL HMSA				***413,305***		
		Kaiser	Single	10.1%	33.8	54,902		
			S. Parent	2.7%	9.0	15,658		
			Couple	8.1%	27.1	52,331		
			Family	12.1%	40.5	84,068		
						206,959		
		Vision	Single	19.5%	65.3	4,310		
			Couple	22.1%	74.0	5,328		
			Family	54.4%	182.2	13,118		
						22,756	***643,020***	778 PHE NE NPFZZZZZ 900
		Major Care	Single	18.5%	62.0	6,116		
		Dental	Couple	23.8%	79.7	9,717		
			Family	56.4%	188.9	27,428		
		SUBTOTAL DENTAL				***43,261***		778 PHE NE NPFZZZZZ 900
		Basic Life				91,809		
		Supplemental Life				135,624		
		SUBTOTAL LIFE INSURANCE				***227,433***		778 PHE NE NPFZZZZZ 900
		Dependent Life				***14,857***		778 PHE NE NPFZZZZZ 900
		AD&D				***38,408***		778 PHE NE NPFZZZZZ 900
				Total Prices		966,979		(342,662)

Maui Electric Co., Ltd.

Flex Plan Premiums & Prices

2007

Plan Options	Premium Per Month 2006 Medical	Premium Per Month 2007	Medical % Increase	FlexPlan Price per Pay Pd 2006	FlexPlan Price per Pay Pd 2007
Credits				67.54	67.54
PPP					
Single	202.74	210.41	3.783	67.18	67.68
Single Parent	407.41	422.22	3.635	71.49	72.49
Couple	490.27	508.10	3.637	78.96	80.46
Family	529.50	548.71	3.628	84.49	86.49
HPH Plus					
Single	232.89	249.77	7.248	67.18	67.68
Single Parent	449.17	482.46	7.411	71.49	72.49
Couple	540.52	580.58	7.411	78.96	80.46
Family	587.86	631.55	7.432	84.49	86.49
Kaiser					
Single	258.07	253.31	-1.845	67.18	67.68
Single Parent	495.50	486.35	-1.847	71.49	72.49
Couple	596.14	585.15	-1.844	78.96	80.46
Family	650.34	638.34	-1.845	84.49	86.49
Vision					
Single	5.08	5.08	0.000	2.75	2.75
Couple	10.15	10.15	0.000	3.00	3.00
Family	14.73	14.73	0.000	3.00	3.00
Major Care Dental					
Single	32.32	31.29	-3.190	4.11	4.11
Couple	64.63	62.56	-3.200	5.08	5.08
Family	92.48	89.52	-3.200	6.05	6.05

Note:

Medical prices based on employee contribution per 2003 Negotiations
No price increase for Vision and Dental

	Single	SingleParent	Couple	Family
Medical	67.68	72.49	80.46	86.49
Vision	2.75	3.00	3.00	3.00
Dental	4.11	6.05	5.08	6.05
Total Prices	74.54	81.54	88.54	95.54
Less Credits	67.54	67.54	67.54	67.54
Employee Cont.	7.00	14.00	21.00	28.00

Maui Electric Co., Ltd.

Calculation of Medical Expense

2007

PLAN	COVERAG	1 % OF PARTICIPATION 1/1/2006	2 PROJECTED PARTICIPATION 2007	3 2007 MONTHLY PREMIUM RATES	4 MONTHLY PREMIUM FOR 2007 PARTICIPATION (2 x 3)	5 2007 ANNUAL PREMIUM
PPP	Single	7.0%	23.5	210.41	4,945	59,340
(HMSA)	S. Parent	2.7%	9.0	422.22	3,800	45,600
	Couple	11.1%	37.2	508.10	18,901	226,812
	Family	21.1%	70.7	548.71	38,794	465,528
					66,440	797,280
HPH Plus	Single	2.3%	7.7	249.77	1,923	23,076
(HMSA)	S. Parent	1.0%	3.4	482.46	1,640	19,680
	Couple	3.0%	10.1	580.58	5,864	70,368
	Family	14.8%	49.6	631.55	31,325	375,900
					40,752	489,024
Kaiser	Single	10.1%	33.8	253.31	8,562	102,744
	S. Parent	2.7%	9.0	486.35	4,377	52,524
	Couple	8.1%	27.1	585.15	15,858	190,296
	Family	12.1%	40.5	638.34	25,853	310,236
					54,650	655,800
Waive		4.0%	13.4			
		100.0%	335		161,842	1,942,104

778 PHE NE NPFZZZZZ 509 TOTAL 1,286,304

778 PHE NE NPFZZZZZ 509 TOTAL 655,800

Maui Electric Co., Ltd.

Calculation of Dental Expense

2007

PLAN	COVERAG	1 % OF PARTICIPATION 1/1/2006	2 PROJECTED PARTICIPATION 2007	3 2007 MONTHLY PREMIUM RATES	4 MONTHLY PREMIUM FOR 2007 PARTICIPATION (2 x 3)	5 2007 PROJECTED ANNUAL PREMIUM
Major Care (HDS)	Single	18.5%	62.0	31.29	1,940	23,280
	2 Party	23.8%	79.7	62.56	4,986	59,832
	Family	56.4%	188.9	89.52	16,910	202,920
					23,836	286,032
					47,672	
Waive		1.3%	4.4			
		100.0%	335		47,672	286,032

778 PHE NE NPFZZZZZ 509 TOTAL 286,032

Maui Electric Co., Ltd.

Calculation of Vision Expense

2007

PLAN	COVERAG	1 % OF PARTICIPATION 1/1/2006	2 PROJECTED PARTICIPATION 2007	3 2007 MONTHLY PREMIUM RATES	4 MONTHLY PREMIUM FOR 2007 PARTICIPATION (2 x 3)	5 2007 PROJECTED ANNUAL PREMIUM
VISION	Single	19.5%	65.3	5.08	332	3,984
(VSP)	Couple	22.1%	74.0	10.15	751	9,012
	Family	54.4%	182.2	14.73	2,684	32,208
Waive		4.0%	13.5			
		100.0%	335		3,767	45,204

778 PHE NE NPFZZZZZ 509 TOTAL 45,204

Merit	30%
Bargaining	70%

HMSA

An Independent Licensee of the Blue Cross and Blue Shield Association

August 17, 2006

Julie Price
Manager of Compensation and Benefits
Hawaiian Electric Company
PO Box 2750
Honolulu, HI 96840-0001

Dear Julie,

Thank you once again, for allowing HMSA to be the Health Plan of Choice for the employees of Hawaiian Electric Industries, Hawaiian Electric Company, and HEI's subsidiary companies. We look forward to serving you again during the new plan year effective January 1, 2007.

Active Employees
We have completed our review of your companies' health care claims experience to determine rates for the upcoming year and find that an overall rate increase of 8.5% is necessary for the Active Employees' coverage. The overall increase is comprised of an 8.5% medical rate increase and an 8.6% drug rate increase.

By implementing the 2007 plan year benefit modifications, as outlined in HEI/HECO's bargaining agreement with the IBEW, the overall rate change calculates to a 5.6% rate increase over the current plan year rates. The benefit modifications for the Preferred Provider Plan had a -4.9% impact to the plan rate, while the Health Plan Hawaii changes resulted in a -.5% rate decrease. The drug plan changes calculated a -3.1% savings to the current plan.

The annualized estimated savings associated with the 2007 benefit modifications, assuming membership as of May 2006, is $281,429.

Retired Employees
The overall rate change for the retirees' coverage calculates to a 12.9% rate increase, and it is comprised of a medical rate increase of 12.4% and a drug rate increase of 13.9%.

After applying the 2007 benefit modifications and associated rate changes as stated above, the overall rate change calculates to a 9.7% rate increase from the current plan year rates. The annualized estimated savings associated with the 2007 benefit modifications, assuming membership as of May 2006, is $101,774.

Renewal Exhibit
Exhibit I & II: Provides the rate calculation worksheets for the medical and drug programs for the active employees.

Exhibit III & III-A: Presents the Active employees' renewal rates and COBRA rates effective January 1, 2007 through December 31, 2007. Rates presented assume that both the Bargaining and Non-Bargaining employee groups will accept the 2007 benefit changes.

Exhibits IV & IV-A: Presents the Active employees' renewal rates and COBRA rates with the assumption that the Bargaining employees will accept the 2007 benefit modifications and the Non-bargaining employees will retain the 2006 plan benefits. This scenario may be necessary if the 2007 benefit changes are not acceptable to the Prepaid Council.

Exhibit V: Provides a listing of large claim cases in excess of $25,000 for the active employee group. Two large claim cases exceeded the $150,000 large claim cap during the experience period.

Exhibit A & B: Provides the medical and drug rate calculation worksheet for the retired employees.

Exhibit C & C-1: Presents the Retired Employees renewal and COBRA rates incorporating the 2007 benefit changes.

Exhibit D: Presents the large claim cases in excess of $25,000 for the retirees. No large claims cases exceeded the large claim cap for retirees.

Exhibit E: Provides for your review, a brief outline of the 2007 benefit modifications that were previously agreed to with the IBEW.

Please note: 65C Plus rates for 2007 will not be available for release until October 2006.

HMSA and its subsidiary companies offer a full range of employee benefit programs, which include Temporary and Long-Term Disability, Group Term Life Insurance, Accidental Death & Dismemberment, and Long Term Care. Please let me know if we can provide you with a quote or more information on any of these programs.

Once again, thank you for choosing HMSA. We appreciate the opportunity to continue to work with you to provide a quality health care program for the employees of HEI, HECO and the subsidiary companies.

If you have any questions regarding the above, please feel free to contact me 948-5507 or you mail e-mail me at john_hamakawa@hmsa.com.

Sincerely,

John A. Hamakawa
Senior Account Executive
Marketing

C: Myra O'Brien

Enclosures

	A	B	C	D	E	F	G	H
1	Exhibit I	Renewal Calculation - Medical Plan						
2	Account:	Hawaiian Electric Company / Hawaiian Electric Industries - Active Employees (M388)						
3								
4	Effective Date:	January 1, 2007 through December 31, 2007						
5	Beginning Date of Experience Period:		June 1, 2005					
6	Ending Date of Experience Period:		May 31, 2006					
7	Number of months of trend:		19					
8	Cumulative Subscribers:		20,858					
9	Cumulative Members:		57,133					
10								PERCENT OF
11						TOTAL	PMPM	ADJUSTED DUES
12								
13	ADJUSTED DUES INCOME					$ 7,494,214	$ 131.17	
14								
15		Account Estimated Incurred Benefits				$ 6,496,247	$ 113.70	86.7%
16								
17		Benefits Exceeding Stop-Loss ($150,000)				$ (90,921)	$ (1.59)	-1.2%
18		Benefits Pooling Charge				$ 178,647	$ 3.13	2.4%
19	TOTAL ESTIMATED INCURRED BENEFITS					$ 6,583,973	$ 115.24	87.9%
20								
21		Annual Trend			0.073			
22		Months of trend:			19			
23		Benefit Trend Adjustment				1.118		
24	TOTAL TRENDED BENEFITS (F19 Times F23)					$ 7,360,882	$ 128.84	98.2%
25								
26								
27		Managed Care/Quality Programs				$ 336,914	$ 5.90	4.5%
28	TOTAL PROJECTED BENEFITS (F24 Plus F26 Plus F27)					$ 7,697,796	$ 134.73	102.7%
29								
30		RETENTION				$ 482,089	$ 8.44	6.4%
31	TOTAL PREMIUM COST (F28 Plus F30)					$ 8,179,885	$ 143.17	109.1%
32								
33		APPLICATION OF INVESTMENT INCOME				$ (126,258)	$ (2.21)	-1.7%
34		RISK CHARGE				$ 76,978	$ 1.35	1.0%
35	NET PREMIUM COST (F31 Plus F33 Plus F34)					$ 8,130,607	$ 142.31	108.5%
36								
37	ACCOUNT RATE ADJUSTMENT							8.5%
38	MRG SYSTEM RATE ADJUSTMENT							8.5%
39	ACCOUNT CREDIBILITY							100.0%
40	MRG SYSTEM CREDIBILITY							0.0%
41								
42	BLENDED RATE ADJUSTMENT							8.5%
43	APPLIED RATE ADJUSTMENT							8.5%

	A	B	C	D	E	F	G	H
1	Exhibit II	Renewal Calculation - Drug Plan						
2	Account:	Hawaiian Electric Company / Hawaiian Electric Industries - Active Employees (M386)						
3								
4	Effective Date:	January 1, 2007 through December 31, 2007						
5	Beginning Date of Experience Period:		June 1, 2005					
6	Ending Date of Experience Period:		May 31, 2006					
7	Number of months of trend:		19					
8	Cumulative Subscribers:		20,367					
9	Cumulative Members:		56,265					
10								PERCENT OF
11						TOTAL	PMPM	ADJUSTED DUES
12								
13	ADJUSTED DUES INCOME					$ 2,102,802	$ 37.37	
14								
15		Account Estimated Incurred Benefits				$ 2,031,967	$ 36.11	96.6%
16								
17		Annual Trend			0.083			
18		Months of trend:			19			
19		Benefit Trend Adjustment				1.135		
20								
21	TOTAL TRENDED BENEFITS (F15 times F19)					$ 2,306,283	$ 40.99	109.7%
22		Drug Rebate				$ (201,522)	$ (3.58)	-9.6%
23								
24	TOTAL PROJECTED BENEFITS (F21 Plus F22)					$ 2,104,761	$ 37.41	100.1%
25		RETENTION				$ 161,378	$ 2.87	7.7%
26								
27	TOTAL PREMIUM COST (F24 plus F25)					$ 2,266,139	$ 40.28	107.8%
28								
29		APPLICATION OF INVESTMENT INCOME				$ (33,263)	$ (0.59)	-1.6%
30		RISK CHARGE				$ 50,514	$ 0.90	2.4%
31								
32	NET PREMIUM COST (F27 Plus F29 Plus F30)					$ 2,283,390	$ 40.58	108.6%
33								
34	ACCOUNT RATE ADJUSTMENT							8.6%
35	MRG SYSTEM RATE ADJUSTMENT							1.0%
36	ACCOUNT CREDIBILITY							100.0%
37	MRG SYSTEM CREDIBILITY							0.0%
38								
39	BLENDED RATE ADJUSTMENT							8.6%
40	APPLIED RATE ADJUSTMENT							8.6%

EXHIBIT III
MRG ACCOUNT : HAWAIIAN ELECTRIC INDUSTRIES, INC. - ACTIVES
MRG CODE : 386 EFFECTIVE: JANUARY 1, 2007 THROUGH DECEMBER 31, 2007

SUMMARY OF RATES FOR HAWAIIAN ELECTRIC INDUSTRIES, INC. - ACTIVES
(BENEFIT CHANGES FOR BOTH BU AND NBU)

623 -1	HECO BU PPP
68622 -1	HECO BU PPP (COBRA)
99380 -1	HECO BU PPP LTD
5331 -1	HELCO BU PPP
56326 -1	HELCO BU PPP (COBRA)
98924 -1	HELCO BU PPP LTD
9744 -1	MECO BU PPP
68098 -1	MECO BU PPP (COBRA)
98921 -1	MECO BU PPP LTD
50463 -1	HECO NBU PPP
56314 -1	HECO NBU PPP (COBRA)
98919 -1	HECO NBU PPP LTD
45281 -1	HELCO NBU PPP
56402 -1	HELCO NBU PPP (COBRA)
99385 -1	HELCO NBU PPP LTD
39409 -1	MECO NBU PPP
56411 -1	MECO NBU PPP (COBRA)
99382 -1	MECO NBU PPP LTD
54558 -1	HEI PPP
62044 -1	HEI PPP (COBRA)
54558 -6	HPC PPP
84752 -1	HPC PPP (COBRA)
56916 -1	PECS PPP
56916 -2	PECS PPP (COBRA)
97667 -1	HEI BOD PPP

	BASIC RATES 625	DRUG RATES 395	TOTAL NEW RATES	0.1% BASIC HBHC FEE	0.1% DRUG HBHC FEE	TOTAL NEW RATES WITH FEE
Single	$146.96	$63.24	$210.20	$0.15	$0.06	$210.41
Sub/Spouse	$393.74	$113.86	$507.60	$0.39	$0.11	$508.10
Sub/Child(ren)	$326.90	$94.90	$421.80	$0.33	$0.09	$422.22
Family	$427.98	$120.18	$548.16	$0.43	$0.12	$548.71

Rates for COBRA groups do not include administrative fees.

EXHIBIT III
MRG ACCOUNT : HAWAIIAN ELECTRIC INDUSTRIES, INC. - ACTIVES
MRG CODE : 386 EFFECTIVE: JANUARY 1, 2007 THROUGH DECEMBER 31, 2007

62469 -1 HECO BU HPH
69487 -1 HECO BU HPH (COBRA)
98920 -1 HECO BU HPH LTD
62471 -1 HELCO BU HPH
69489 -1 HELCO BU HPH (COBRA)
99384 -1 HELCO BU HPH LTD
62473 -1 MECO BU HPH
69491 -1 MECO BU HPH (COBRA)
99383 -1 MECO BU HPH LTD
60863 -1 HECO NBU HPH
62977 -1 HECO NBU HPH (COBRA)
99381 -1 HECO NBU HPH LTD
60865 -1 HELCO NBU HPH
69488 -1 HELCO NBU HPH (COBRA)
98923 -1 HELCO NBU HPH LTD
60866 -1 MECO NBU HPH
69490 -1 MECO NBU HPH (COBRA)
98922 -1 MECO NBU HPH LTD
80160 -1 HEI HPH
84674 -1 HEI HPH (COBRA)
80162 -1 HPC HPH
84676 -1 HPC HPH (COBRA)
63100 -2 PECS HPH
63112 -1 PECS HPH (COBRA)

	BASIC RATES Z-N	DRUG RATES 396	TOTAL NEW RATES	0.1% BASIC HBHC FEE	0.1% DRUG HBHC FEE	TOTAL NEW RATES WITH FEE
Single	$186.28	$63.24	$249.52	$0.19	$0.06	$249.77
Sub/Spouse	$466.14	$113.86	$580.00	$0.47	$0.11	$580.58
Sub/Child(ren)	$387.08	$94.90	$481.98	$0.39	$0.09	$482.46
Family	$510.74	$120.18	$630.92	$0.51	$0.12	$631.55

Rates for COBRA groups do not include administrative fees.

EXHIBIT III
MRG ACCOUNT : HAWAIIAN ELECTRIC INDUSTRIES, INC. - ACTIVES
MRG CODE : 386 EFFECTIVE: JANUARY 1, 2007 THROUGH DECEMBER 31, 2007

82383 -1 HECO BU HPH PLUS
84541 -1 HECO BU HPH PLUS (COBRA)
82385 -1 HELCO BU HPH PLUS
84750 -1 HELCO BU HPH PLUS (COBRA)
82384 -1 MECO BU HPH PLUS
84751 -1 MECO BU HPH PLUS (COBRA)

	BASIC RATES Z-N	0.1% BASIC HBHC FEE	TOTAL NEW RATES WITH FEE
Single	$186.28	$0.19	$186.47
Sub/Spouse	$466.14	$0.47	$466.61
Sub/Child(ren)	$387.08	$0.39	$387.47
Family	$510.74	$0.51	$511.25

Rates for COBRA groups do not include administrative fees.

August 29, 2006

Ms. Julie Price
Director, Benefits
Hawaiian Electric Company, Inc.
P.O. Box 2750
Honolulu, HI 96840-0001

RE: Rate Renewal Effective January 1, 2007 through December 31, 2007

Dear Julie:

This correspondence is to inform you of the upcoming rate renewal for the Hawaiian Electric Company, Inc., that will be effective January 1, 2007 through December 31, 2007. The proposed rates are in alignment with the benefits that have been agreed upon with the bargained units for the companies that are associated with Hawaiian Electric Company, Inc. The benefit package for the 2007 plan year will be a $18 office visit, $18 charge per department per day for outpatient laboratory and radiology services, and a $14 prescription drug copayment.

Active Employees:

Subgroups 009, 010,0111,014,020,021:

Employee	$253.31
Employee & Spouse	$585.15
Employee & Child(ren)	$486.35
Employee & Family	$638.34

Subgroup 013:

Employee	$253.31
Employee & Spouse	$585.15
Employee & Child(ren)	$486.35
Employee & Family	$638.34

Retirees under 65:

Subgroups 018, 019, 023

Employee	$455.96
Employee + One	$911.92
Employee + Two or More	$1,367.88

Subgroup 022

Employee	$455.96
Employee + One	$911.92
Employee + Two or More	$1,367.88

Retirees over 65 w/Prescription Drugs:

Employee	$414.54
Employee + One	$829.08
Employee + Two or More	$1,243.62
Medicare Member	$130.00
Medicare + Non-Medicare Spouse	$544.54
Medicare + Medicare Spouse	$260.00

Retirees over 65 w/o Prescription Drugs:

Employee	$414.54
Employee + One	$829.08
Employee + Two or More	$1,243.62
Medicare Member	$110.02
Medicare + Non-Medicare Spouse	$524.56
Medicare + Medicare Spouse	$220.04

The Rate Adjustment Factor (RAF) has decreased from 1.1094 to 1.0696 for the medical service utilization and decreased from 1.0165 to 0.9665 for the prescription drug utilization. I've enclosed the rate renewal backup information along with the "Summary of Important Changes for 2007" with this correspondence.

Please review the information enclosed in this rate renewal packet and I will be available to meet with you in the coming weeks to review and go over any questions that you may have about the renewal. Please contact me at 292-6436 or via email at Rob.Chung@kp.org to set up the meeting in the coming weeks.

Sincerely,

Rob A. Chung
Senior Account Manager
Business Development

enclosures

Rate Change Analysis

KAISER PERMANENTE
Kaiser Foundation Health Plan
Hawaii Region

Group Name: Hawaiian Electric
Group Number: 00182
Subgroup Name: HECO, MECO, HELCO (BU and NBU), HEI Corporate
Subgroup Number: 009, 010, 011, 014, 020, 021, 013
Account Rep: Rob
Underwriter: ay
Renewal Quote ID: None
Prior Quote ID: None

RAF: 1.0696
Prior RAF: 1.1094
Rx RAF: 0.9665
Prior Rx RAF: 1.0165
Prior Reg Fee: $15.00
Prior Rx Copay: $12.00

*** Rates subject to future State of Hawaii Dept of Insurance requirements ***

First Step Subscriber Rate	Renewal Year Effective 1/1/07 12/31/07	Prior Year Effective 1/1/06 12/31/06	Rate Change	Percent Change
Medical Plan $15 (No Charge Lab, Imaging, & Testing)	244.62	237.35	7.27	3.06%
Base RAF Adjustment	17.03	25.97	(8.94)	-34.42%
Total Base Medical Plan	**261.65**	**263.32**	**(1.67)**	**-0.63%**
Prescription Drug Rider 14	27.16	27.14	0.02	0.07%
Drug RAF Adjustment	(0.91)	0.45	(1.36)	-302.22%
Total Prescription Drug Plan	**26.25**	**27.59**	**(1.34)**	**-4.86%**
Supplemental Benefits				
$18 Registration Fee	(1.54)		(1.54)	New Item
$50 Copay Per Hosp. Adm	(0.44)	(0.44)	-	0.00%
$18 Outpatient LIT	(3.58)	(2.97)	(0.61)	20.54%
Large Group Copay Response Adjustment	(0.92)	(0.94)	0.02	-2.13%
$15 Registration Fee		(0.48)	0.48	-100.00%
Total Supplemental Benefits	**(6.48)**	**(4.83)**	**(1.65)**	**34.16%**
Administrative Charges				
Broker Load				
APP Adjustment				
HBHC Load	0.24	0.24	-	0.00%
Total Administrative Charges	**0.24**	**0.24**	**-**	**0.00%**
Total Standard Rate Before Adjustments	**281.66**	**286.32**	**(4.66)**	**-1.63%**
Family Mix Change Impact				
4-Step (1 : 2.31 : 1.92 : 2.52) Rate Factor	**1.05**	**1.08**		
Re-ratioed Rate	**296.18**	**308.36**	**(12.18)**	**-3.95%**
Other Adjustments				
Decomposite Adjustment - Actives	(42.19)	(50.29)	8.10	-16.11%
Rate Reconciliation - 2006 (Revenue Adjustment)	(0.68)		(0.68)	New Item
Dental				
Total Adjustments	**(42.87)**	**(50.29)**	**7.42**	**-14.75%**
Total Rate After Adjustments	**253.31**	**258.07**	**(4.76)**	**-1.84%**
Total "Billed" Rate Step 1	**253.31**	**258.07**	**(4.76)**	**-1.84%**
Step 2	**585.15**			
Step 3	**486.35**			
Step 4	**638.34**			

Footnotes:

- *The Health Plan Community Rate Change is the difference in the base rates for the contract periods above.*
- *Rates are based on the standard 3-tier distribution and adjusted to the group specific billing basis.*
- *Base rates for medical and drug are adjusted by the medical and drug specific HP CRI and RAF.*
- *Supplemental benefits are adjusted by the Health Plan Community Rate change for that line of coverage.*
- *The Total Billed Rate is the finalized rate for 2006 and 2007.*

www.deltadentalhi.org

HDS
Hawaii Dental Service

July 18, 2006

Ms. Myra O'Brien
Hawaiian Electric Industries
PO Box 2750
Honolulu, HI 96840

RE: Hawaiian Electric Industries
HDS Group No. 0118

Dear Myra:

Hawaii Dental Service (HDS) has been providing dental benefits coverage to the people of Hawaii for over 40 years. We are committed to partnering with you to provide your employees a quality dental plan. Enclosed for your review are the rate renewal calculation sheet and the Group Experience Report for Hawaiian Electric Industries.

The 24-month Rate Calculation indicates a 1.4% decrease. However, HDS offers to renew the plan for the contract period beginning January 1, 2007 through December 31, 2007 at a 3.2% decrease. Over the last two contract periods, the group's stabilization has resulted in a cumulative net surplus of $361,235 (approximately 1.5 months of premiums). At these new rates, we are projecting the surplus to remain the same. The rates are shown below:

	Actives			Retirees
	Active	COBRA		
One Party:	$31.29	$31.92	Composite:	$63.82
Two Party:	$62.56	$63.81		
Three Party+:	$89.52	$91.31		

We appreciate your continued trust in selecting HDS as your group's dental benefits provider. Elaine Fujiwara, your Marketing and Sales Manager, will be happy to discuss the renewal information. Please do not hesitate to contact her at 529-9261.

Sincerely,

Lynette C. Arakawa
Director Marketing and Sales

LCA:pei

Enclosures

Hawaii Dental Service
700 Bishop Street, Suite 700
Honolulu, Hawaii 96813-4196

Telephone: 808-521-1431
Toll Free: 800-232-2533
Fax: 808-529-9368

MONICA ENGLE
ACCOUNT EXECUTIVE

August 28, 2006

Ms. Myra O'Brien
Benefits Administrator
HAWAIIAN ELECTRIC INDUSTRIES, INC.
P.O. Box 2750
Honolulu, HI 96840

RE: VISION PLAN – 2007 RATE CONFIRMATION

Dear Myra:

Pursuant to your request, this letter serves as confirmation that the renewal rates effective January 1, 2006 are guaranteed for a twenty-four month term. The following rates will be continued through December 31, 2007:

ACTIVE EMPLOYEES		RETIREES	
Employee Only:	$ 5.08	Composite:	$10.85
Employee + One Dependent:	$10.15		
Employee + Two or More Dependents:	$14.73		

Please let me know if you require anything further. You may reach me at 524-4877, extension 13 or via email at monica.engle@vsp.com

Sincerely.

MONICA B. ENGLE
Account Executive

VSP
1001 BISHOP STREET, PAUAHI TOWER, SUITE 890, HONOLULU, HI 96813
TEL: 808-524-4877 800-522-5162 FAX: 808-533-0604
VISIT OUR WEB SITE AT VSP.COM

Maui Electric Co., Ltd.

Calculation of Group Life Insurance - BASIC

2007

				MERIT		BU	TOTAL
Average Salary for	January	2007	Enrollment	76,224		62,195	
			x	1.0000			
				76,224			
Salary/Wage Adjustment			x	1.0000	x	1.0000	
				76,224		62,195	
Insurance Allowance			x	2.0	x	1.5	
Projected No. of Merit and BU Employees			x	101	x	235	
Projected Total Basic Coverage				15,397,248		21,923,738	
Annual Premium			x	0.00246	x	0.00246	
2007 Projected Basic Group Life Expense				37,877		53,932	91,809
						Supplemental	135,624
				778 PHE NE NPFZZZZZ 509			227,433

Group Life	
Basic	91,809
Supplemental	135,624
	227,433
Dependent Life	14,857
Accidental Death	38,408
Total	280,698

No. of Merit Employees	30%
No. of BU Employees	70%

Maui Electric Co., Ltd.

Calculation of Group Life Insurance - SUPPLEMENTAL

2007

2 1/2 Coverage

Age	2007 Enrolled Merit Avg Salary	2007 Enrolled Barg Avg Wage	Proj. No. of Merit Employees	Proj. No. of BU Employees	2007 Projected Coverage	Annual Premium	2007 Supplemental Premium	TOTAL
0 - 29	76,224	62,195	0	0	0	0.00077	0	
30 - 34	76,224	62,195	2	6	449,394	0.00086	386	
35 - 39	76,224	62,195	1	3	224,697	0.00143	321	
40 - 44	76,224	62,195	2	6	449,394	0.00191	858	
45 - 49	76,224	62,195	3	7	549,701	0.00276	1,517	
50 - 54	76,224	62,195	2	6	449,394	0.00485	2,180	
55 - 59	76,224	62,195	3	7	549,701	0.00781	4,293	
60 - 64	76,224	62,195	1	2	162,502	0.01320	2,145	
65/+	76,224	62,195	0	0	0	0.02474	0	11,700

3 1/2 Coverage

Age	2007 Enrolled Merit Avg Salary	2007 Enrolled Barg Avg Wage	Proj. No. of Merit Employees	Proj. No. of BU Employees	2007 Projected Coverage	Annual Premium	2007 Supplemental Premium	TOTAL
0 - 29	76,224	62,195	2	5	850,622	0.00077	655	
30 - 34	76,224	62,195	4	10	1,701,244	0.00086	1,463	
35 - 39	76,224	62,195	16	37	6,431,806	0.00143	9,197	
40 - 44	76,224	62,195	15	35	6,068,690	0.00191	11,591	
45 - 49	76,224	62,195	19	45	7,769,934	0.00276	21,445	
50 - 54	76,224	62,195	15	35	6,068,690	0.00485	29,433	
55 - 59	76,224	62,195	11	25	4,367,446	0.00781	34,110	
60 - 64	76,224	62,195	3	7	1,213,738	0.01320	16,021	
65/+	76,224	62,195	0	0	0	0.02474	0	123,915

MECO2007_335 (rate case adj).xls[Grp Life - Supplemental]
9/14/2006

Maui Electric Co., Ltd.

Calculation of Group Life Insurance - SUPPLEMENTAL for $50,000 coverage 2007

$50,000 Coverage

Age	2007 Enrolled Merit Avg Coverage	2007 Enrolled BU Avg. Covera	Proj. No. of Merit Employees	Proj. No. of BU Employees	2007 Projected Coverage	Annual Premium	2007 Supplemental Premium	TOTAL
0 - 29	0	3,250	0	0	0	0.00077	0	
30 - 34	0	3,250	0	0	0	0.00086	0	
35 - 39	0	3,250	0	0	0	0.00143	0	
40 - 44	0	3,250	0	0	0	0.00191	0	
45 - 49	0	3,250	0	1	3,250	0.00276	9	
50 - 54	0	3,250	0	0	0	0.00485	0	
55 - 59	0	3,250	0	0	0	0.00781	0	
60 - 64	0	3,250	0	0	0	0.01320	0	
65/+	0	3,250	0	0	0	0.02474	0	9
						TOTAL		9

No. of Merit Employees	30%
No. of BU Employees	70%

MECO2007_335 (rate case adj).xls[Grp Life Supp for $50K]
9/14/2006

Maui Electric Co., Ltd.

Calculation of Dependent Life Insurance

2007

Plan	Participation as of Jan-06	No. of Emp Enrolled	Annual Rate	TOTAL
10K	10.10%	34	$26.76	910
25K	59.10%	198	$70.44	13,947
				14,857

778 PHE NE NPFZZZZZ 509 **14,857**

Maui Electric Co., Ltd.

Calculation of Accidental Death & Dismemberment

2007

		MERIT		BU		TOTAL
Average Single Coverage		199,000		180,284		
	x	1.0000				
		199,000				
Salary/Wage Adjustment	x	1.0000	x	1.0000		
		199,000		180,284		
Projected No. of Merit and BU Employees [1]	x	101	x	235		
		20,099,000		42,366,740		
Average Merit plus BU Single Coverage						186,465
Participation					x	95
Annual Single Rate					x	0.00042
Single Coverage Premium						7,440
Average Family Coverage		234,019		207,328		
	x	1.0000				
		234,019				
Salary/Wage Adjustment	x	1.0000	x	1.0000		
		234,019		207,328		
Projected No. of Merit and BU Employees [1]	x	101	x	235		
		23,635,919		48,722,080		
Average Merit plus BU Family Coverage						215,994
Participation					x	206
Annual Family Rate					x	0.000696
Family Coverage Premium						30,968
					TOTAL	38,408
				778 PHE NE NPFZZZZZ 509		38,408

Note:

[1] No. of Merit Employees 30%
No. of BU Employees 70%

MECO2007_335 (rate case adj).xls[AD&D]
9/14/2006

MECO'S PORTION OF TOTAL (ALL YEARS) COST for HR SUITE PROJECT
By Cost Type, Phase & Stage

(Thousands [1])

Capital Deferred Expense	Cost Type	Phase 1 Stage 1	Phase 1 Stage 2	Phase 1 Stage 3	Phase 1 Total	Phase 2 Stage 1	Phase 2 Stage 2	Phase 2 Stage 3	Phase 2 Total	Project Total
Deferred	LABOR	-	44	-	44		33	-	33	77
	OVERHEAD	-	25	-	25	-	19	-	19	44
	O/S SVC	-	219	-	219	-	134	-	134	354
	OTHER	-	160	-	160	-	23	-	23	183
	AFUDC	-	21	-	21	-	6	-	6	27
	TOTAL	-	470	-	470	-	214	-	214	684
Expense - Not Reengineering	LABOR	10	21	16	47	-	4	22	26	73
	OVERHEAD	7	19	11	37	-	7	15	21	59
	O/S SVC	35	24	3	62	14	11	3	28	90
	OTHER	3	18	3	23	-	8	-	8	31
	TOTAL	55	82	32	169	14	30	40	84	253
Expense - Reengine	LABOR	-	4	-	4	-	-	-	-	4
	OVERHEAD	-	2	-	2	-	-	-	-	2
	TOTAL	-	6	-	6	-	-	-	-	6
TOTAL	TOTAL	55	558	32	645	14	244	40	298	943

1. The detail amounts are rounded which may cause differences in the totals.

MECO'S PORTION OF 2007 COST for HR SUITE PROJECT
By Cost Type, Phase & Stage

(Thousands [1])

Capital Deferred Expense	Cost Type	Phase 1 Stage 1	Phase 1 Stage 2	Phase 1 Stage 3	Phase 1 Total	Phase 2 Stage 1	Phase 2 Stage 2	Phase 2 Stage 3	Phase 2 Total	Project Total
Deferred	LABOR	-	44	-	44	-	9	-	9	53
	OVERHEAD	-	25	-	25	-	5	-	5	30
	O/S SVC	-	219	-	219	-	27	-	27	246
	OTHER	-	160	-	160	-	23	-	23	183
	AFUDC	-	21	-	21	-	-	-	-	21
	TOTAL	-	469	-	469	-	64	-	64	533
Expense - Not Reengineering	LABOR	7	21	16	44	-	-	2	2	46
	OVERHEAD	5	19	11	35	-	1	1	2	37
	O/S SVC	34	42	5	81	14	4	-	18	99
	OTHER	-	-	-	-	-	-	-	-	-
	TOTAL	46	82	32	160	14	5	3	22	182
Expense - Reengineering	LABOR	-	4	-	4	-	-	-	-	4
	OVERHEAD	-	2	-	2	-	-	-	-	2
	TOTAL		6	-	6	-	-	-	-	6
TOTAL	TOTAL	46	557	32	635	14	69	3	86	721

1. The detail amounts are rounded which may cause differences in the totals.

MAUI ELECTRIC COMPANY, LIMITED

ADMINISTRATIVE AND GENERAL EXPENSES
Employee Benefits
Increase/Decrease by Activity equal to or greater than $45,000 and 10%

Line		Exp. Code [1]	(a) 2005 Recorded	(b) 2007 Budget	(c) Inc/-Dec	(d) % Inc/Dec	Explanation
	926000 Employee Pensions and Benefits						
1	Act 779 Administer Retirement Programs	509	3,122,487	5,290,996	2,168,509	69	Increase in pension plan expenses based on SFAS 87 due to change in asset return assumption and amortization of gain/loss. See MECO T-10
2	Act 778 Administer Flexible Benefits Program	550	0	157,664	157,664		New HR Suite project costs
3		509	2,229,473	2,554,038	324,565	15	Premium increase for group insurance benefits
4		900	-239,311	-342,662	-103,351	43	Increase in employee contributions

[1] Expense Codes:
509 Outside Services-Specific Use
550 Intercompany charges
900 Financial statement items

MECO T-11
DOCKET NO. 2006-0387

TESTIMONY OF

EILEEN WACHI

MANAGER

ADMINISTRATION

MAUI ELECTRIC COMPANY, LIMITED

Subject: Number of Employees

INTRODUCTION

Q. Please state your name and business address.

A. My name is Eileen Wachi and my business address is 210 Kamehameha Avenue, Kahului, Hawaii.

Q. By whom are you employed and in what capacity?

A. I am employed by Maui Electric Company, Limited ("MECO" or "Company") as Manager of the Administration Department. My work experience and educational background are shown in MECO–1100.

Q. Please describe your area of testimony with respect to this case.

A. My testimony will cover MECO's total number of employees, the Administration Department's employee count, and the President's Office employee count.

TOTAL NUMBER OF EMPLOYEES

Q. Please define "number of employees."

A. The "number of employees" includes regular, temporary and probationary employees, but excludes temporary agency workers hired on a contractual basis.

Q What is MECO's test year 2007 estimate for total number of employees?

A. The Company's test year 2007 estimated number of total employees at the end of the year is 335, as shown in MECO–1101. The 335 year end count includes 14 employees on Molokai and 9 employees on Lanai. The test year estimate for average number of employees is 334 as shown in MECO–1102.

Q. How are the test year 2007 employee count estimates presented with respect to employee counts for 2006?

A. Where attachments to this testimony show employee count information for 2006, the exhibits (e.g., MECO-1101) have been prepared showing budgeted 2006 employee count information, consistent with the overall presentation of 2006 information in the Company's application in this docket. In addition, workpapers

bearing the same numbers as the exhibits have been prepared showing the same information as in the exhibits, but substituting the 2006 budgeted employee count information with the actual 2006 employee counts (e.g., MECO-WP-1101).

Q. How does the Company's test year 2007 estimated number of employees at year end compare with the year end employee counts in previous years?

A. Year-end employee count information is shown in MECO-1101 and MECO-WP-1101. The test year 2007 estimated year end employee count is 335, which is 11 more than the budgeted count of 324 at the end of 2006, and 25 more than the actual 2006 year end count of 310. The total Company test year 2007 increase of 25 over the actual 2006 year end count reflects an increase of 3 in the Customer Service Department, 2 in the Engineering Department, 5 in the Power Supply Department, and 15 in the Transmission and Distribution Department. As discussed later in my testimony, as of mid-February 2007, the actual employee count is 314.

EMPLOYEE COUNT ESTIMATE

Q. How were the employee count estimates developed?

A. The estimates were developed as part of MECO's Operating Budget process described by Mr. Lyle Matsunaga in MECO T-9. During the budgeting process, each manager establishes the resource requirements (number of employees needed) for his or her organization over the budget period by responsibility area (RA), based on factors such as his or her planned workload and the anticipated number of retirements during the period.

Q. How is the estimated total labor demand determined?

A. Department managers, together with their department supervisors, determine the work (such as capital projects, non-capital projects, nonrecurring activities and normal day-to-day activities) that needs to be accomplished. Based on the work

that needs to be accomplished, forecasts of labor hours are developed and inputted into the budgeting system ("PILLAR") resulting in a forecasted demand of labor hours necessary to accomplish the work.

Q. How are the resource requirements (number of employees needed) and total labor demand coordinated and reconciled during the budgeting process?

A. Based on the total labor demand, the supply of various Company personnel are "resourced" to meet the labor demand of work that needs to be accomplished. If the labor demand exceeds the labor supply available, capital and non-capital projects, nonrecurring activities and normal day-to-day activities are prioritized and certain work is forecast to be performed on an overtime basis, deferred, contracted out or performed by temporary personnel. This process assures the Company that its budgeted labor costs are consistent with the number of employees it expects to have during the budget period and that higher priority work is performed first.

Q. Who discusses the changes in number of employees from 2006 to 2007?

A. The individual O&M witnesses will discuss changes in the number of employees by departments. The departments and witnesses are:

General Accounting – Lyle Matsunaga (MECO T-9),
Administration and President's Office – Eileen Wachi (MECO T–11),
Customer Service – Sharon Suzuki (MECO T–7),
Power Supply – Michael Ribao (MECO T–5), and
Transmission & Distribution and Engineering – Andrew Herrera (MECO T–6).

Q. What is the average number of employees by department and RA from 2001 to 2007?

A. MECO–1102 presents the average number of employees by department and RA recorded from 2001 to 2005, and estimated for 2006 and 2007. The average

number of employees for a given year was determined by using a 13 month average based on the total number of employees at the end of each month of the given year, and at December 31 of the prior year in order to capture the average count for January of the given year. The calculation of the test year 2007 average employee count estimate of 334 is shown in MECO-1103.

Q. What are some of the factors causing the fluctuations in average employee count between 2001 and 2007?

A. Employee turnover due to an aging workforce (resulting in increased retirements) and other employment terminations cause some of the year to year fluctuations in MECO's average employee count. The 2007 average count of 334 is higher than the 302-310 range of averages between 2001 and 2005 due to several contributing factors: (1) load growth due to increased demand for electricity, (2) an increase in regulatory requirements with respect to financial internal controls, environmental reporting, and the security of people and property and (3) the tragedy of September 11, 2001 that caused a downward fluctuation in employee count due to its effects on Hawaii's economy.

LABOR COST

Q. Is there a direct relationship between the number of employees and the level of operations and maintenance (O&M) labor expenses incurred? For example, will a lower than budgeted number of employees result in a proportionate underrun in O&M labor cost?

A. While there is a general relationship between the number of employees and labor costs incurred, it should not be presumed that there is a direct relationship between employee count and the level of O&M labor expenses incurred. The O&M labor expenses included in MECO's test year estimates reflect the required level of MECO operations, regardless of the number of employees on MECO's payroll.

Even if the Company is unable to fill all of the positions needed during the test year, the Company must still get the necessary work done. Therefore, the Company may make up for the unfilled positions by: (1) incurring additional overtime and increasing the number of temporary hires with which MECO supplements its work force during peak manpower requirement periods, and (2) increasing the amount of work performed by outside contractors, such as agency temporaries and technical service representatives. The increased overtime and number of temporary hires translate into increased labor costs. Additional contract services also translate into increased costs, but such costs are recorded as non-labor costs.

ORGANIZATIONAL STRUCTURE

Q. What is MECO's management organizational structure?

A. MECO–1104 shows the Company's budgeted management organizational structure including reporting relationships, departmental organizations, and staffing levels as of December 31, 2006.

Q. What is MECO's management organizational structure staffing for the test year?

A. The estimated test year staffing level as of December 31, 2007, is shown in MECO–1105.

EMPLOYEE COUNT ADJUSTMENTS

Q. Will adjustments be made to the test year employee count due to the delay in achieving the estimated 335 employees by January 2007?

A. No. Adjustments will not be made to the estimated employee count for test year 2007. The budgeted 2007 employee count represents the level of resources needed by MECO to provide service to its customers. A delay in filling job vacancies is not a reason for adjusting the Company's estimated employee count.

Q. What is MECO's current actual employee count?

A. The actual employee count as of this writing (February 16, 2007) is 314. There are currently 21 vacancies of which 3 are pending hires (job applicants who have accepted conditional job offers made by MECO). The 21 vacancies are as follows: 4 in the Customer Service Department, 1 in the Engineering Department, 3 in the Power Supply Department and 13 in the Transmission and Distribution Department. The 3 pending hires, expected to be hired by the end of the first quarter of 2007, will fill 1 vacancy in the Customer Service Department and 2 vacancies in the Transmission and Distribution Department. This will reduce the number of vacancies to 18.

Q. Please describe the reasons for the delay in achieving the estimated 335 employee count by January 2007.

A. MECO works hard to fill positions as soon as possible after the need arises. The delay in achieving the estimated 335 employees by January 2007 was due to difficult-to-fill specialized positions and recent vacancies due to employee transfers and terminations. Employee transfers and terminations are not predictable and therefore, there is often a delay in filling those types of vacancies.

Q. Are there other reasons why MECO is not adjusting its test year 2007 employee count estimate?

A. Yes. As explained earlier, while there is a general relationship between the number of employees and labor costs incurred, it should not be presumed that there is a direct relationship between employee count and the level of O&M labor expenses incurred. Even if the Company was unable to fill by January 2007 all of the positions as budgeted in its Operating Budget, the Company must still get the necessary work done. As a result, the otherwise lower than budgeted labor costs due to a lower employee count will be offset by higher costs in other areas. For example, more overtime hours are worked, in part, to compensate for lower

staffing levels. As shown in MECO–1106 and MECO-WP-1106, the paid overtime statistics from 2001 through 2006 presents a higher percentage of overtime in comparison to test year 2007 due a lower employee count. In addition to overtime, the Company accomplishes the necessary work by employing the use of temporary workers hired through employment agencies and by outsourcing work through the use of contract services. Further, the lower than budgeted employee count will not necessarily have an effect on the level of O&M labor expenses incurred, to the extent that the vacancies are for positions that perform primarily capital related work.

RECRUITMENT

Q. Please describe the process MECO uses to fill its vacancies.

A. As mentioned previously, department managers, together with their department supervisors, determine the resource requirements for their organization as part of the budgeting process. When a vacancy occurs, various levels of approval are required before the vacancy can be posted. It is MECO's preference to fill job openings first from within the Company; however, this will depend on the availability of qualified applicants. In addition, bargaining unit vacancies are generally filled using the process of job bidding rights.

When qualified applicants are not available internally, the Company extends its search into the community and sometimes to the mainland. For certain hard to fill positions, these procedures may run concurrently. The Company makes every effort to place people in positions that make the best use of their abilities, contribute to career growth, and maximize personal satisfaction.

Q. Describe MECO's training programs to fill specialized jobs unique to the utility industry.

A. MECO has seven apprenticeship programs designed to fill specialized jobs unique to the utility industry. The seven apprenticeship programs are Lineman, Primary Troubleman, Electrical Mechanic, Meter Electrician, Diesel Maintenance Mechanic, Maintenance Electrician, and Maintenance Mechanic. Currently, MECO has 7 apprentices in the following programs: Lineman – 5 and Meter Electrician – 2. In addition, there are employees who are in the process of fulfilling the necessary requirements to qualify for acceptance into 4 of the apprenticeship programs.

MECO also has internal on-the-job training programs to ensure that employee knowledge and skill level requirements for the jobs are preserved. Notably, power plant operators are provided with training focused on the safe operation of generators to prepare them for upper mobility in the Company's line-of-progression jobs.

Q. Can the specialized nature of certain jobs present challenges in filling vacancies?

A. Yes. For example, due to the rigors of learning the different specialized jobs, when an employee transfers outside of the power plant operator position line-of-progression (mentioned in the previous question and answer) to another position within the Company, the transfer creates a burden on power plant operations. As a result, there is usually a delay in releasing the employee, thus creating a backlog in filling open vacancies.

Q. What are the challenges in recruitment?

A. Due to the nature of specialized work performed by the Company, a major recruiting challenge is the lack of a qualified local labor pool. Compounded with low unemployment rates across the state, this tight labor market is a continuing challenge in finding qualified applicants. The unemployment rate in 2001 for Maui and the state was 3.7% and 4.2 %, respectively. By December 2006, the

unemployment rate dropped dramatically for Maui and the state to 1.5% and 2.0%, respectively, which markedly reduced the availability of local labor. As a result, Company employment advertisements now attract fewer applicants for all jobs including entry level ones. The difficulties to recruit certain professional management and journey-level trade positions such as Linemen within the state has made it necessary to extend recruitment efforts to the mainland. However, out-of-state recruitment poses its own set of problems. For instance, it has been our experience that journey level trades and craft, professional, and management applicants that are from out-of-state usually enjoy higher compensation. This makes it difficult to put together a competitive offer to entice applicants to relocate to Maui.

Q. How does MECO address these recruitment challenges to fill job vacancies?

A. To combat recruitment challenges, MECO increased the frequency of its entry-level employment testing such that it could be considered a year round process. MECO partners with linkage agencies, e.g. Workforce Development Division/Work Source Maui, Alu Like Inc, Maui Community College, and Vocational Rehabilitation Division, to recruit for entry-level jobs. Additionally, advertisements are placed in the Maui News, Honolulu Advertiser and on the radio to widen the search process. On occasion, advertisements are placed on various internet websites such as Powerlineman.com, TheMeterGuy.com and Career Builder. The University of Hawaii online job services board has also been used.

<u>ADMINISTRATION DEPT. & PRESIDENT'S OFFICE EMPLOYEE COUNT</u>

Q. What is the 2007 test year estimate number of employees for the Administration Department?

A. The 2007 test year estimate number of employees for the Administration Department is 11.

Q. What is the current number of employees in the Administration Department?

A. The Administration Department currently has 11 employees.

Q. How many new positions will be added to the Administration Department in test year 2007?

A. The Administration Department will not add any new positions in test year 2007.

Q. What is the 2007 test year estimate number of employees for the President's Office?

A. The 2007 test year estimate number of employees for the President's Office is one.

Q. What is the current number of employees in the President's Office?

A. The President's Office has one employee.

Q. How many new positions will be added to the President's Office in test year 2007?

A. The President's Office will not add any new positions in test year 2007.

SUMMARY

Q. Please summarize your testimony.

A. The total number of year end employees estimated for test year 2007 is 335. The estimated total number of average employees for test year 2007 is 334.

Q. Does this conclude your testimony?

A. Yes, it does.

MAUI ELECTRIC COMPANY, LTD.

EILEEN WACHI

EDUCATIONAL BACKGROUND AND EXPERIENCE

BUSINESS ADDRESS:	Maui Electric Company, Ltd. 210 Kamehameha Avenue, Kahului, HI 96732
POSITION:	Manager, Administration Department Maui Electric Company, Ltd. (April 1995 to present)
YEARS OF SERVICE:	21 Years
EDUCATION:	University of Hawaii, B.B.A. in Business Administration, 1975
PREVIOUS POSITIONS:	Personnel Administrator Maui Electric Company, Ltd. (1985 to 1995)

MAUI ELECTRIC COMPANY, LTD.
YEAR END EMPLOYEE COUNT BY DEPARTMENT - TOTAL COMPANY

DEPARTMENT		(A) TOTAL POSITIONS FILLED 2004	(B) ACTUAL NET ADDITIONS (REDUCT-IONS) 2005	(C) [(A) + (B)] ACTUAL 2005	(D) ESTIMATED NET ADDITIONS (REDUCT-IONS) 2006	(E) [(C) + (D)] BUDGET 2006	(F) ESTIMATED NET ADDITIONS (REDUCT-IONS) 2007	(G) [(E) + (F)] ESTIMATE 2007
Accounting	MS_	14	0	14	1	15	0	15
Administration	MA_	10	0	10	1	11	0	11
Customer Service	MC_	35	2	37	5	42	1	43
Engineering	MW_	28	0	28	1	29	2	31
Power Supply	MG_	120	0	120	0	120	3	123
President's Office	M9P	1	0	1	0	1	0	1
Transmission & Distribution	MD_	98	(4)	94	12	106	5	111
TOTAL		306	(2)	304	20	324	11	335

SOURCE:
Columns A & C - DARS Report 635 - Employee Count by Department/Division within VP Function

MAUI ELECTRIC COMPANY, LTD.
YEAR END EMPLOYEE COUNT BY DEPARTMENT - BY ISLAND

MAUI DEPARTMENT		(A) TOTAL POSITIONS FILLED 2004	(B) ACTUAL NET ADDITIONS (REDUCT-IONS) 2005	(C) [(A) + (B)] ACTUAL 2005	(D) ESTIMATED NET ADDITIONS (REDUCT-IONS) 2006	(E) [(C) + (D)] BUDGET 2006	(F) ESTIMATED NET ADDITIONS (REDUCT-IONS) 2007	(G) [(E) + (F)] ESTIMATE 2007
Accounting	MS_	14	0	14	1	15	0	15
Administration	MA_	10	0	10	1	11	0	11
Customer Service	MC_	32	2	34	5	39	1	40
Engineering	MW_	28	0	28	1	29	2	31
Power Supply	MG_	108	0	108	0	108	2	110
President's Office	M9P	1	0	1	0	1	0	1
Transmission & Distribution	MD_	91	(4)	87	12	99	5	104
TOTAL		284	(2)	282	20	302	10	312

MOLOKAI DEPARTMENT		(A) TOTAL POSITIONS FILLED 2004	(B) ACTUAL NET ADDITIONS (REDUCT-IONS) 2005	(C) [(A) + (B)] ACTUAL 2005	(D) ESTIMATED NET ADDITIONS (REDUCT-IONS) 2006	(E) [(C) + (D)] BUDGET 2006	(F) ESTIMATED NET ADDITIONS (REDUCT-IONS) 2007	(G) [(E) + (F)] ESTIMATE 2007
Customer Service	MCT	3	0	3	0	3	0	3
Power Supply	MGT	7	0	7	0	7	0	7
Transmission & Distribution	MDT	4	0	4	0	4	0	4
TOTAL		14	0	14	0	14	0	14

LANAI DEPARTMENT		(A) TOTAL POSITIONS FILLED 2004	(B) ACTUAL NET ADDITIONS (REDUCT-IONS) 2005	(C) [(A) + (B)] ACTUAL 2005	(D) ESTIMATED NET ADDITIONS (REDUCT-IONS) 2006	(E) [(C) + (D)] BUDGET 2006	(F) ESTIMATED NET ADDITIONS (REDUCT-IONS) 2007	(G) [(E) + (F)] ESTIMATE 2007
Power Supply	MGL	5	0	5	0	5	1	6
Transmission & Distribution	MDL	3	0	3	0	3	0	3
TOTAL		8	0	8	0	8	1	9

SOURCE:
Columns A & C - DARS Report 635 - Employee Count by Department/Division within VP Function

Maui Electric Company, Ltd.
Average Annual Employee Counts (13-Month Averages) - TOTAL COMPANY
2001 - 2007

Dept	RA	(A) 2001	(B) 2002	(C) 2003	(D) 2004	(E) 2005	Increase (Decrease)	(F) Average Budget 2006	(G) Increase (Decrease)	(H) Average Budget 2007	(I) Yearend Budget 2006	(J) Increase (Decrease)	(K) Yearend Budget 2007
		Recorded Average											
Administration	MSA	4	4	4	4	4	0	4	0	4	4	0	4
Administration	MSC	1	1	1	1	1	0	1	0	1	1	0	1
Administration	MSP	2	2	2	2	2	0	2	0	2	2	0	2
Administration	MSS	3	3	3	3	3	1	4	0	4	4	0	4
Administration		10	10	10	10	10	1	11	0	11	11	0	11
Customer Service	MCA	1	1	1	2	2	1	3	0	3	3	0	3
Customer Service	MCF	6	6	6	6	6	0	6	1	7	6	1	7
Customer Service	MCM	7	7	7	7	8	0	8	0	8	8	0	8
Customer Service	MCN	5	4	3	3	3	1	4	1	5	5	0	5
Customer Service	MCR	11	12	12	12	12	1	13	0	13	13	0	13
Customer Service	MCT	4	3	3	3	3	0	3	0	3	3	0	3
Customer Service	MCZ	4	4	5	3	3	1	4	0	4	4	0	4
Customer Service		38	37	37	36	37	4	42	2	43	42	1	43
T&D	MDA	0	0	0	2	2	0	2	0	2	2	0	2
T&D	MDC	6	6	6	6	6	0	6	0	6	6	0	6
T&D	MDE	9	9	9	9	9	0	9	1	10	9	1	10
T&D	MDK	32	31	31	32	30	6	36	1	37	36	1	37
T&D	MDL	3	3	3	3	3	0	3	0	3	3	0	3
T&D	MDM	8	7	7	5	6	1	7	0	7	7	0	7
T&D	MDR	25	25	23	24	25	0	25	2	27	25	2	27
T&D	MDS	5	5	5	5	5	0	5	1	6	5	1	6
T&D	MDT	5	5	4	4	4	0	4	0	4	4	0	4
T&D	MDV	1	2	2	2	2	0	2	1	3	2	1	3
T&D	MWI	6	6	6	5	5	2	7	(1)	6	7	(1)	6
T&D		101	99	95	96	96	9	105	5	111	106	5	111
Engineering	MWA	3	3	3	3	3	0	3	0	3	3	0	3
Engineering	MWC	2	2	2	2	2	0	2	0	2	2	0	2
Engineering	MWL	2	2	2	2	2	0	2	0	2	2	0	2
Engineering	MWM	1	1	1	1	1	0	1	0	1	1	0	1
Engineering	MWP	17	17	17	17	17	0	17	1	18	17	1	18
Engineering	MWS	3	3	4	4	4	0	4	1	5	4	1	5
Engineering		28	28	29	28	29	0	29	2	31	29	2	31
General Accounting	MAA	2	2	2	2	3	0	3	0	3	3	0	3
General Accounting	MAB	4	4	4	4	4	0	4	0	4	4	0	4
General Accounting	MAG	3	3	3	3	3	0	3	0	3	3	0	3
General Accounting	MAP	1	1	1	1	1	0	1	0	1	1	0	1
General Accounting	MAX	3	3	2	4	3	1	4	0	4	4	0	4
General Accounting		13	13	12	14	14	1	15	0	15	15	0	15
Power Supply	MGA	11	11	10	11	11	1	12	0	12	12	0	12
Power Supply	MGB	10	10	10	10	10	0	10	1	11	10	1	11
Power Supply	MGC	0	0	3	2	3	0	3	0	3	3	0	3
Power Supply	MGD	23	24	21	21	21	0	21	0	21	21	0	21
Power Supply	MGE	10	10	10	10	11	0	11	1	12	11	1	12
Power Supply	MGK	21	21	21	21	23	(2)	21	0	21	21	0	21
Power Supply	MGL	7	6	5	5	5	0	5	1	6	5	1	6
Power Supply	MGM	30	30	30	29	30	0	30	0	30	30	0	30
Power Supply	MGT	7	7	7	7	7	0	7	0	7	7	0	7
Power Supply		119	118	118	117	121	(1)	120	3	123	120	3	123
President's Office	M9P	2	1	1	1	1	0	1	0	1	1	0	1
President's Office		2	1	1	1	1	0	1	0	1	1	0	1
Totals		310	305	302	302	307	14	322	12	334	324	11	335

Notes:

1. Above includes Company temps but excludes agency temps.
2. Sub-totals and totals are calculated using a 13-month averaging formula.

Maui Electric Company, Ltd.
Average Annual Employee Counts (13-Month Averages) - MAUI ONLY
2001 - 2007

Dept	RA	(A) 2001	(B) 2002	(C) 2003	(D) 2004	(E) 2005	Increase (Decrease)	(F) Average Budget 2006	(G) Increase (Decrease)	(H) Average Budget 2007	(I) Yearend Budget 2006	(J) Increase (Decrease)	(K) Yearend Budget 2007
		Recorded Average											
Administration	MSA	4	4	4	4	4	0	4	0	4	4	0	4
Administration	MSC	1	1	1	1	1	0	1	0	1	1	0	1
Administration	MSP	2	2	2	2	2	0	2	0	2	2	0	2
Administration	MSS	3	3	3	3	3	1	4	0	4	4	0	4
Administration		10	10	10	10	10	1	11	0	11	11	0	11
Customer Service	MCA	1	1	1	2	2	1	3	0	3	3	0	3
Customer Service	MCF	6	6	6	6	6	0	6	1	7	6	1	7
Customer Service	MCM	7	7	7	7	8	0	8	0	8	8	0	8
Customer Service	MCN	5	4	3	3	3	1	4	1	5	5	0	5
Customer Service	MCR	11	12	12	12	12	1	13	0	13	13	0	13
Customer Service	MCZ	4	4	5	3	3	1	4	0	4	4	0	4
Customer Service		34	34	34	33	34	4	39	2	40	39	1	40
T&D	MDA	0	0	0	2	2	0	2	0	2	2	0	2
T&D	MDC	6	6	6	6	6	0	6	0	6	6	0	6
T&D	MDE	9	9	9	9	9	0	9	1	10	9	1	10
T&D	MDK	32	31	31	32	30	6	36	1	37	36	1	37
T&D	MDM	8	7	7	5	6	1	7	0	7	7	0	7
T&D	MDR	25	25	23	24	25	0	25	2	27	25	2	27
T&D	MDS	5	5	5	5	5	0	5	1	6	5	1	6
T&D	MDV	1	2	2	2	2	0	2	1	3	2	1	3
T&D	MWI	6	6	6	5	5	2	7	(1)	6	7	(1)	6
T&D		93	91	88	89	89	9	98	5	104	99	5	104
Engineering	MWA	3	3	3	3	3	0	3	0	3	3	0	3
Engineering	MWC	2	2	2	2	2	0	2	0	2	2	0	2
Engineering	MWL	2	2	2	2	2	0	2	0	2	2	0	2
Engineering	MWM	1	1	1	1	1	0	1	0	1	1	0	1
Engineering	MWP	17	17	17	17	17	0	17	1	18	17	1	18
Engineering	MWS	3	3	4	4	4	0	4	1	5	4	1	5
Engineering		28	28	29	28	29	0	29	2	31	29	2	31
General Accounting	MAA	2	2	2	2	3	0	3	0	3	3	0	3
General Accounting	MAB	4	4	4	4	4	0	4	0	4	4	0	4
General Accounting	MAG	3	3	3	3	3	0	3	0	3	3	0	3
General Accounting	MAP	1	1	1	1	1	0	1	0	1	1	0	1
General Accounting	MAX	3	3	2	4	3	1	4	0	4	4	0	4
General Accounting		13	13	12	14	14	1	15	0	15	15	0	15
Power Supply	MGA	11	11	10	11	11	1	12	0	12	12	0	12
Power Supply	MGB	10	10	10	10	10	0	10	1	11	10	1	11
Power Supply	MGC	0	0	3	2	3	0	3	0	3	3	0	3
Power Supply	MGD	23	24	21	21	21	0	21	0	21	21	0	21
Power Supply	MGE	10	10	10	10	11	0	11	1	12	11	1	12
Power Supply	MGK	21	21	21	21	23	(2)	21	0	21	21	0	21
Power Supply	MGM	30	30	30	29	30	0	30	0	30	30	0	30
Power Supply		105	106	106	105	109	(1)	108	2	110	108	2	110
President's Office	M9P	2	1	1	1	1	0	1	0	1	1	0	1
President's Office		2	1	1	1	1	0	1	0	1	1	0	1
Totals		284	281	280	280	285	14	300	11	311	302	10	312

Notes:

1. Above includes Company temps but excludes agency temps.
2. Sub-totals and totals are calculated using a 13-month averaging formula.

Maui Electric Company, Ltd.
Average Annual Employee Counts (13-Month Averages) - MOLOKAI AND LANAI
2001 - 2007

Dept	RA	(A) 2001	(B) 2002	(C) 2003	(D) 2004	(E) 2005	Increase (Decrease)	(F) Average Budget 2006	(G) Increase (Decrease)	(H) Average Budget 2007	(I) Yearend Budget 2006	(J) Increase (Decrease)	(K) Yearend Budget 2007
		Recorded Average											
MOLOKAI													
Customer Service	MCT	4	3	3	3	3	0	3	0	3	3	0	3
T&D	MDT	5	5	4	4	4	0	4	0	4	4	0	4
Power Supply	MGT	7	7	7	7	7	0	7	0	7	7	0	7
Totals		16	15	14	14	14	0	14	0	14	14	0	14
LANAI													
T&D	MDL	3	3	3	3	3	0	3	0	3	3	0	3
Power Supply	MGL	7	6	5	5	5	0	5	1	6	5	1	6
Totals		10	9	8	8	8	0	8	1	9	8	1	9

Notes:

1. Above includes Company temps but excludes agency temps.
2. Sub-totals and totals are calculated using a 13-month averaging formula.

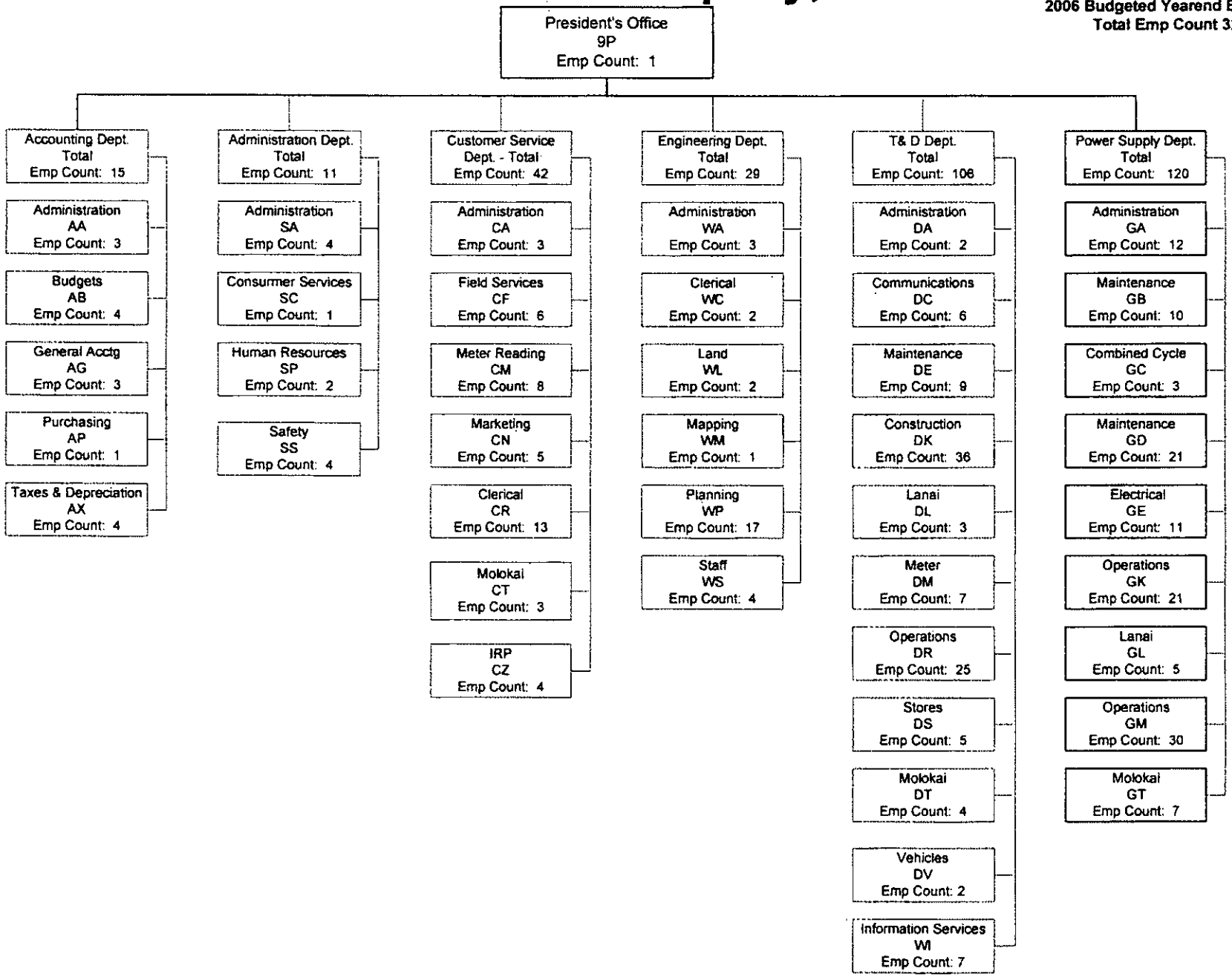
Maui Electric Company, Ltd.
Average Annual Employee Counts (13-Month Averages) - TOTAL COMPANY
Test Year 2007

		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	Average Budget 2007
		BUDGET 2006	TEST YEAR 2007 BUDGET												Sum (A)-(M)
Dept	RA	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	/ 13
Administration	MSA	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Administration	MSC	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Administration	MSP	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Administration	MSS	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Administration		11	11	11	11	11	11	11	11	11	11	11	11	11	11
Customer Service	MCA	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Customer Service	MCF	6	7	7	7	7	7	7	7	7	7	7	7	7	7
Customer Service	MCM	8	8	8	8	8	8	8	8	8	8	8	8	8	8
Customer Service	MCN	5	5	5	5	5	5	5	5	5	5	5	5	5	5
Customer Service	MCR	13	13	13	13	13	13	13	13	13	13	13	13	13	13
Customer Service	MCT	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Customer Service	MCZ	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Customer Service		42	43	43	43	43	43	43	43	43	43	43	43	43	43
T&D	MDA	2	2	2	2	2	2	2	2	2	2	2	2	2	2
T&D	MDC	6	6	6	6	6	6	6	6	6	6	6	6	6	6
T&D	MDE	9	10	10	10	10	10	10	10	10	10	10	10	10	10
T&D	MDK	36	37	37	37	37	37	37	37	37	37	37	37	37	37
T&D	MDL	3	3	3	3	3	3	3	3	3	3	3	3	3	3
T&D	MDM	7	7	7	7	7	7	7	7	7	7	7	7	7	7
T&D	MDR	25	27	27	27	27	27	27	27	27	27	27	27	27	27
T&D	MDS	5	6	6	6	6	6	6	6	6	6	6	6	6	6
T&D	MDT	4	4	4	4	4	4	4	4	4	4	4	4	4	4
T&D	MDV	2	3	3	3	3	3	3	3	3	3	3	3	3	3
T&D	MWI	7	6	6	6	6	6	6	6	6	6	6	6	6	6
T&D		108	111	111	111	111	111	111	111	111	111	111	111	111	111
Engineering	MWA	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Engineering	MWC	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Engineering	MWL	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Engineering	MWM	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Engineering	MWP	17	18	18	18	18	18	18	18	18	18	18	18	18	18
Engineering	MWS	4	5	5	5	5	5	5	5	5	5	5	5	5	5
Engineering		29	31	31	31	31	31	31	31	31	31	31	31	31	31
General Accounting	MAA	3	3	3	3	3	3	3	3	3	3	3	3	3	3
General Accounting	MAB	4	4	4	4	4	4	4	4	4	4	4	4	4	4
General Accounting	MAG	3	3	3	3	3	3	3	3	3	3	3	3	3	3
General Accounting	MAP	1	1	1	1	1	1	1	1	1	1	1	1	1	1
General Accounting	MAX	4	4	4	4	4	4	4	4	4	4	4	4	4	4
General Accounting		15	15	15	15	15	15	15	15	15	15	15	15	15	15
Power Supply	MGA	12	12	12	12	12	12	12	12	12	12	12	12	12	12
Power Supply	MGB	10	11	11	11	11	11	11	11	11	11	11	11	11	11
Power Supply	MGC	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Power Supply	MGD	21	21	21	21	21	21	21	21	21	21	21	21	21	21
Power Supply	MGE	11	12	12	12	12	12	12	12	12	12	12	12	12	12
Power Supply	MGK	21	21	21	21	21	21	21	21	21	21	21	21	21	21
Power Supply	MGL	5	6	6	6	6	6	6	6	6	6	6	6	6	6
Power Supply	MGM	30	30	30	30	30	30	30	30	30	30	30	30	30	30
Power Supply	MGT	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Power Supply		120	123	123	123	123	123	123	123	123	123	123	123	123	123
President's Office	M9P	1	1	1	1	1	1	1	1	1	1	1	1	1	1
President's Office		1	1	1	1	1	1	1	1	1	1	1	1	1	1
Totals		324	335	335	335	335	335	335	335	335	335	335	335	335	334

Notes:
1. Above includes Company temps but excludes agency temps.
2. Sub-totals and totals are calculated using a 13-month averaging formula.

Maui Electric Company, Ltd.

2006 Budgeted Yearend EE Count
Total Emp Count 324



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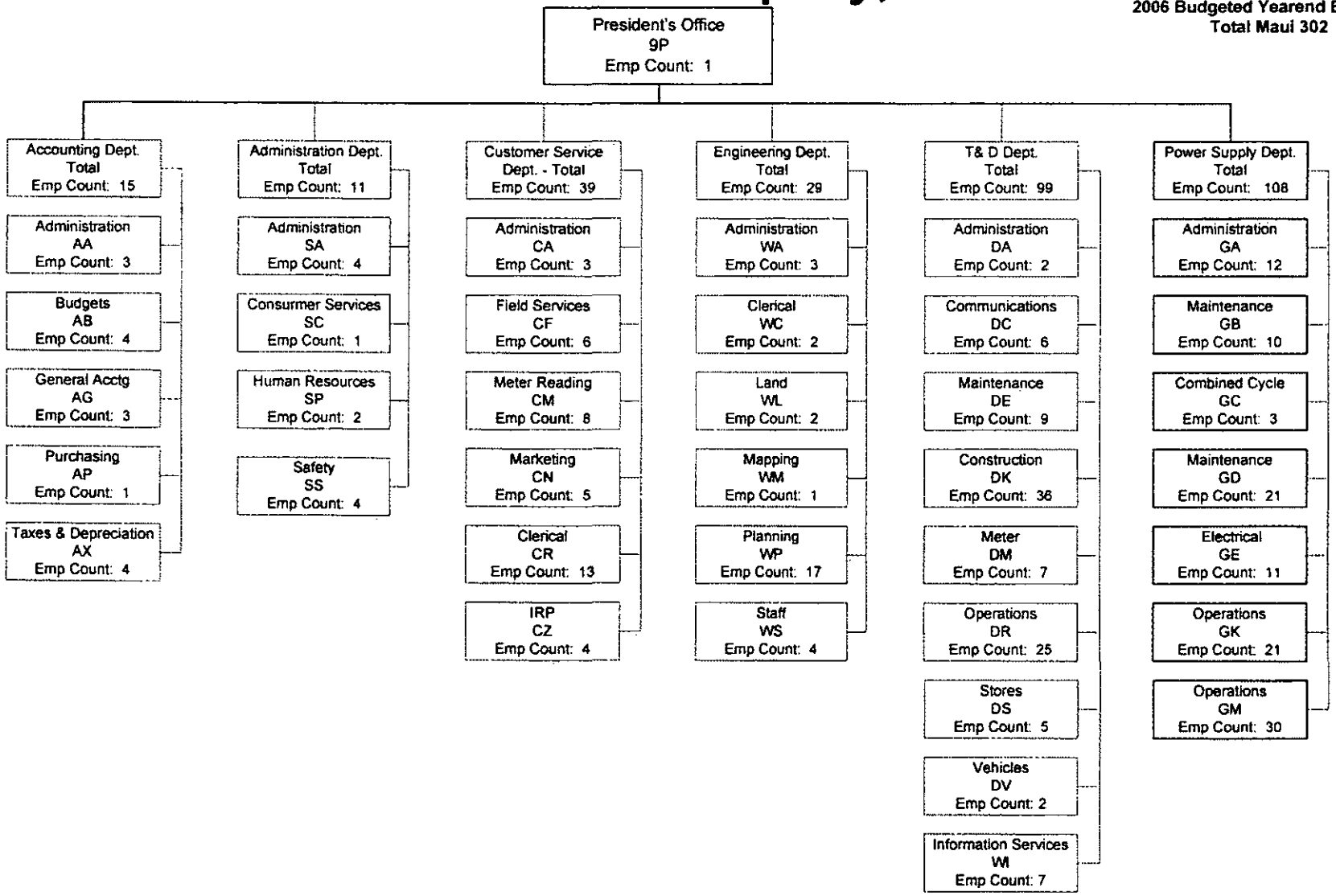
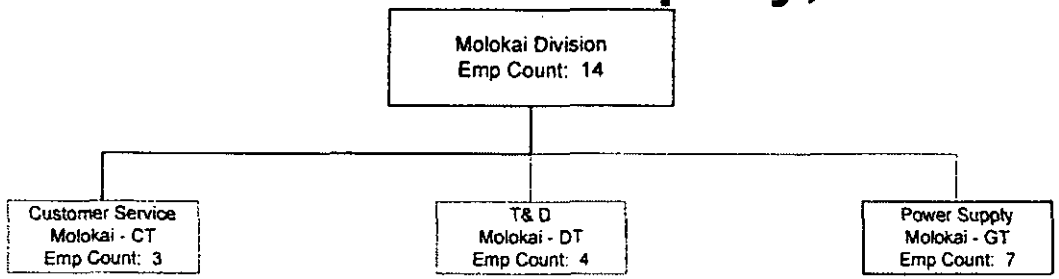
Maui Electric Company, Ltd.

2006 Budgeted Yearend EE Count
Total Maui 302



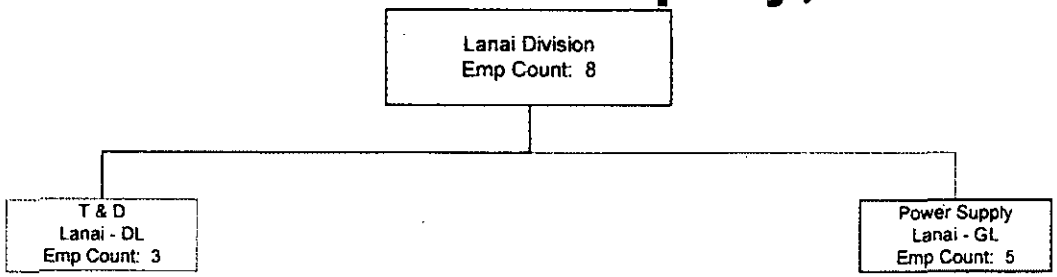
Maui Electric Company, Ltd.

2006 Budgeted Yearend EE Count
Total Molokai 14



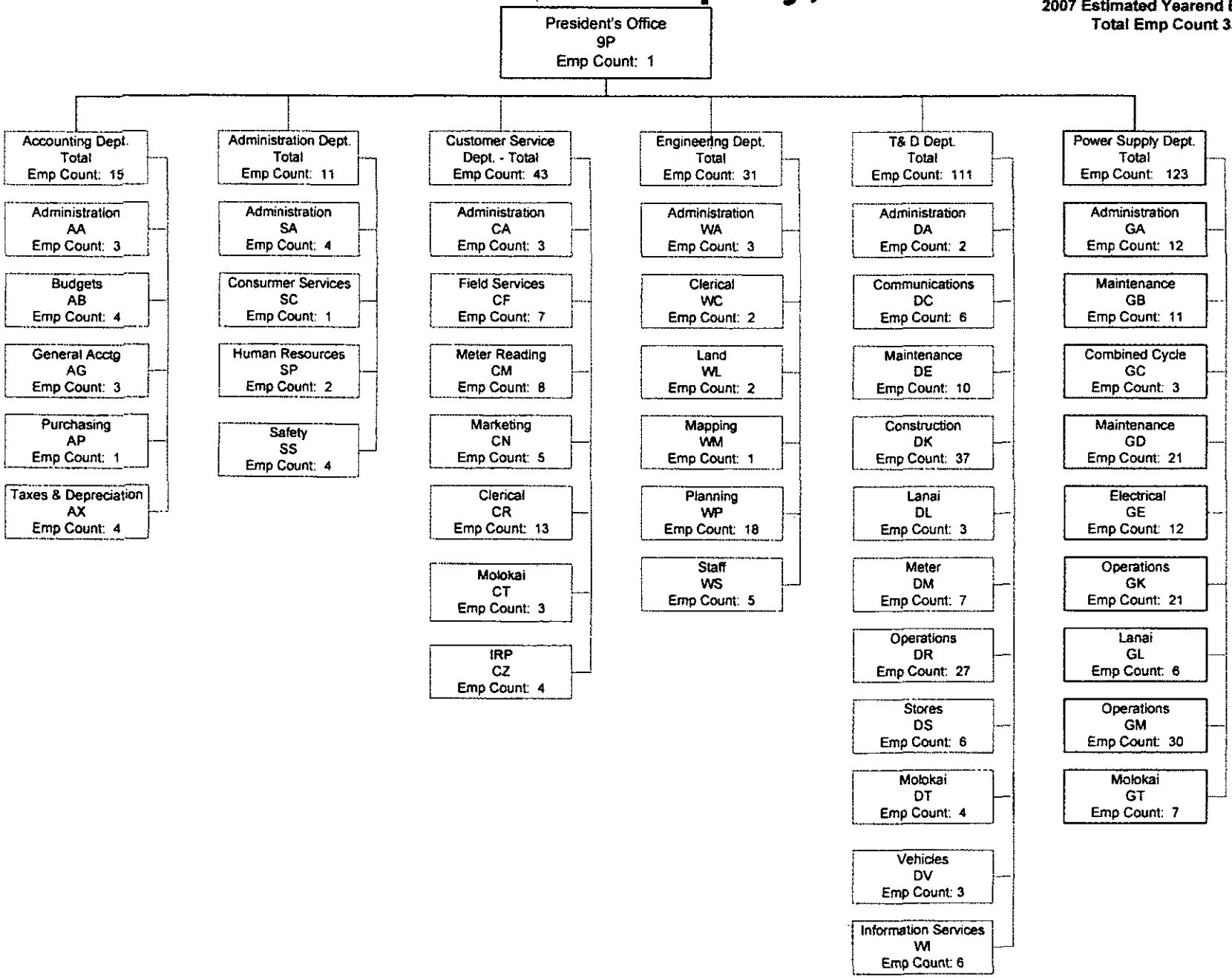
Maui Electric Company, Ltd.

2006 Budgeted Yearend EE Count
Total Lanai 8



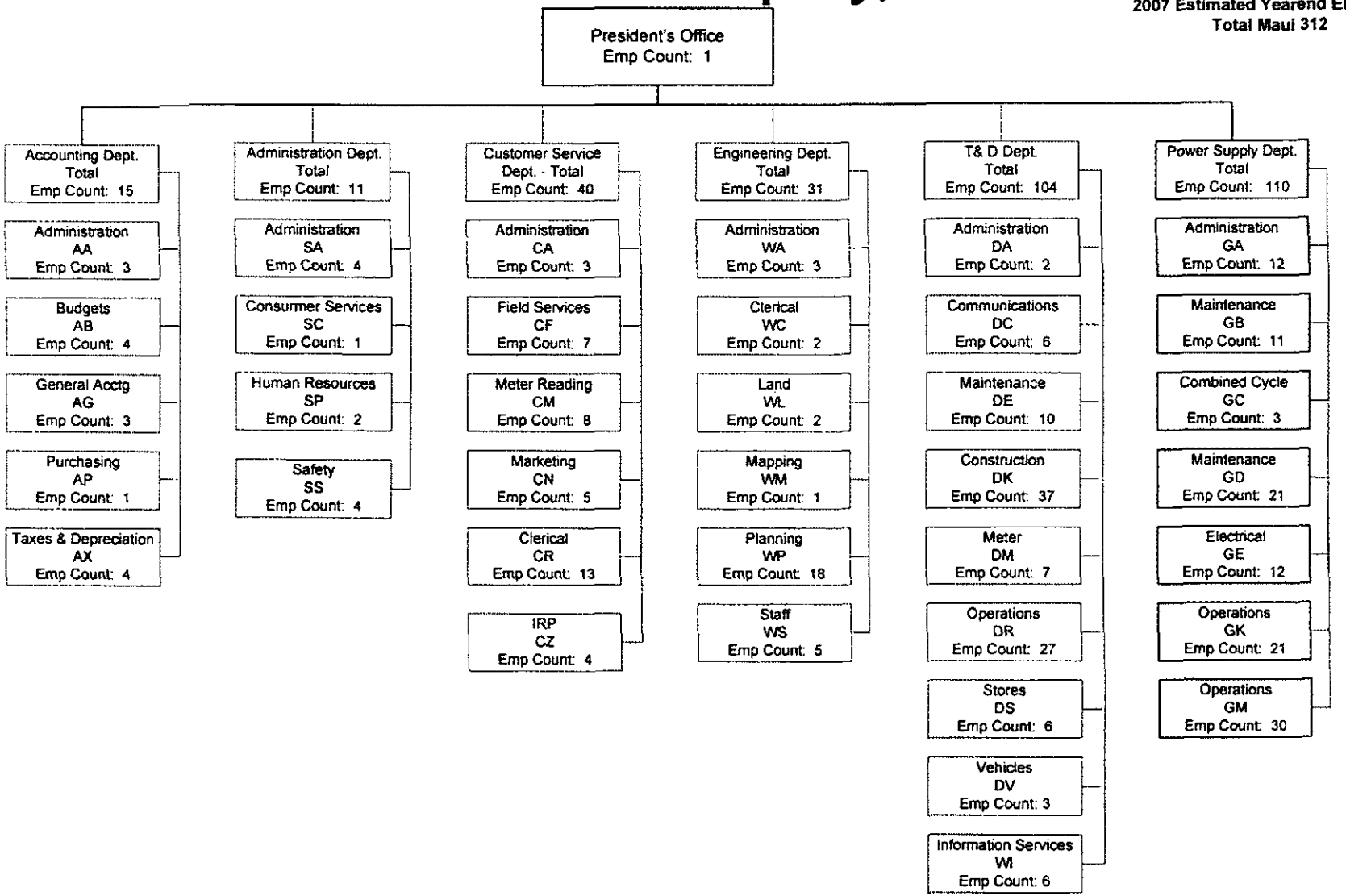
Maui Electric Company, Ltd.

2007 Estimated Yearend EE Count
Total Emp Count 335



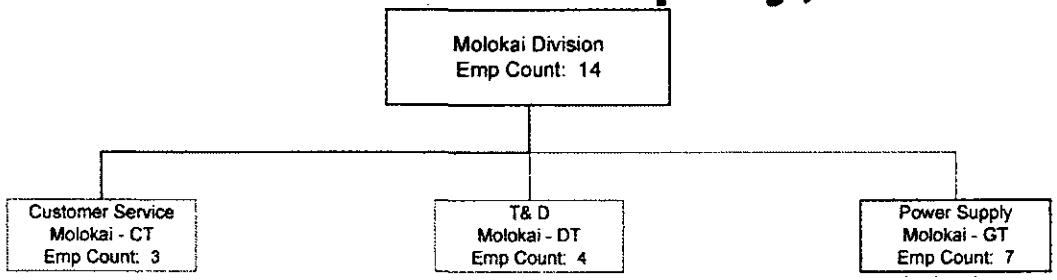
Maui Electric Company, Ltd.

2007 Estimated Yearend EE Count
Total Maui 312



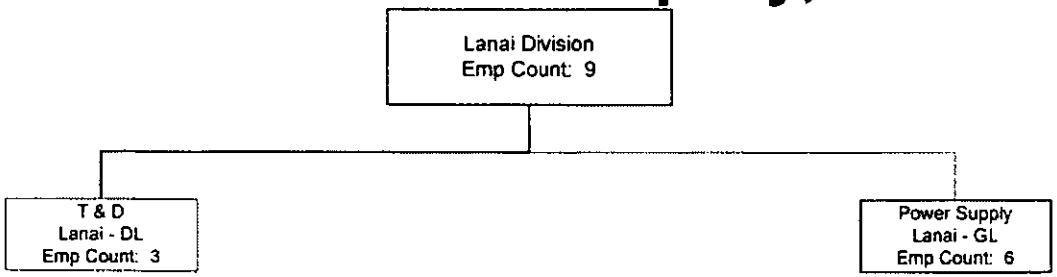
Maui Electric Company, Ltd.

2007 Estimated Yearend EE Count
Total Molokai 14



Maui Electric Company, Ltd.

2007 Estimated Yearend EE Count
Total Lanai 9



MAUI ELECTRIC COMPANY, LTD.
OVERTIME HOURS AND OVERTIME PERCENTAGE BASED ON HOURS - TOTAL COMPANY
2001 - 2005 ACTUAL; 2006 - 2007 BUDGET

	2001 ACTUAL			2002 ACTUAL			2003 ACTUAL			2004 ACTUAL		
	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime
President's Office	4,160	0	0.0%	2,183	0	0.0%	2,080	0	0.0%	2,080	0	0.0%
Accounting	26,168	17	0.1%	26,027	40	0.2%	25,431	57	0.2%	28,556	462	1.6%
Customer Service	79,150	542	0.7%	77,889	565	0.7%	76,743	947	1.2%	74,717	2,031	2.7%
Distribution	209,700	34,609	16.5%	205,836	14,901	7.2%	199,614	32,834	16.4%	199,190	41,992	21.1%
Production	245,326	32,077	13.1%	244,565	28,749	11.8%	245,255	30,217	12.3%	239,958	36,707	15.3%
Administration	20,107	188	0.9%	20,396	158	0.8%	20,809	114	0.5%	21,195	238	1.1%
Engineering	58,353	1,366	2.3%	56,975	23	0.0%	59,891	868	1.4%	59,190	2,702	4.6%
TOTAL COMPANY	**642,964**	**68,799**	**10.7%**	**633,873**	**44,437**	**7.0%**	**629,823**	**65,036**	**10.3%**	**624,885**	**84,132**	**13.5%**

	2005 ACTUAL			2006 BUDGET			2007 BUDGET		
	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime
President's Office	2,080	0	0.0%	2,080	0	0.0%	2,088	0	0.0%
Accounting	28,936	32	0.1%	31,200	0	0.0%	31,320	61	0.2%
Customer Service	75,717	2,133	2.8%	87,360	5,192	5.9%	89,784	9,660	10.8%
Distribution	200,235	40,429	20.2%	220,480	23,664	10.7%	231,768	18,351	7.9%
Production	247,211	36,010	14.6%	249,600	26,698	10.7%	256,824	27,142	10.6%
Administration	21,506	80	0.4%	22,880	636	2.8%	22,968	932	4.1%
Engineering	59,802	2,193	3.7%	60,320	8,325	13.8%	64,728	11,625	18.0%
TOTAL COMPANY	**635,488**	**80,877**	**12.7%**	**673,920**	**64,515**	**9.6%**	**699,480**	**67,771**	**9.7%**

SOURCE:
Payroll Recap Report, 2001 - 2005

MAUI ELECTRIC COMPANY, LTD.
OVERTIME HOURS AND OVERTIME PERCENTAGE BASED ON HOURS - MAUI ONLY
2001 - 2005 ACTUAL; 2006 - 2007 BUDGET

	2001 ACTUAL			2002 ACTUAL			2003 ACTUAL			2004 ACTUAL		
	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime
President's Office	4,160	0	0.0%	2,183	0	0.0%	2,080	0	0.0%	2,080	0	0.0%
Accounting	26,168	17	0.1%	26,027	40	0.2%	25,431	57	0.2%	28,556	462	1.6%
Customer Service	70,829	524	0.7%	70,601	539	0.8%	70,503	887	1.3%	68,477	1,922	2.8%
Distribution	192,971	33,398	17.3%	189,236	13,496	7.1%	184,717	30,590	16.6%	184,693	39,960	21.6%
Production	216,778	29,524	13.6%	217,916	26,181	12.0%	220,788	26,817	12.1%	215,418	32,841	15.2%
Administration	20,107	188	0.9%	20,396	158	0.8%	20,809	114	0.5%	21,195	238	1.1%
Engineering	58,353	1,366	2.3%	56,975	23	0.0%	59,891	868	1.4%	59,190	2,702	4.6%
TOTAL MAUI	**589,365**	**65,017**	**11.0%**	**583,335**	**40,437**	**6.9%**	**584,219**	**59,331**	**10.2%**	**579,608**	**78,125**	**13.5%**

	2005 ACTUAL			2006 BUDGET			2007 BUDGET		
	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime
President's Office	2,080	0	0.0%	2,080	0	0.0%	2,088	0	0.0%
Accounting	28,936	32	0.1%	31,200	0	0.0%	31,320	61	0.2%
Customer Service	69,477	1,967	2.8%	81,120	5,112	6.3%	83,520	9,460	11.3%
Distribution	185,779	38,467	20.7%	205,920	23,079	11.2%	217,152	15,890	7.3%
Production	222,225	32,495	14.6%	224,640	24,372	10.8%	229,680	24,924	10.9%
Administration	21,506	80	0.4%	22,880	636	2.8%	22,968	932	4.1%
Engineering	59,802	2,193	3.7%	60,320	8,325	13.8%	64,728	11,625	18.0%
TOTAL MAUI	**589,806**	**75,233**	**12.8%**	**628,160**	**61,524**	**9.8%**	**651,456**	**62,892**	**9.7%**

SOURCE:
Payroll Recap Report, 2001 - 2005

MAUI ELECTRIC COMPANY, LTD.
OVERTIME HOURS AND OVERTIME PERCENTAGE BASED ON HOURS - MOLOKAI ONLY
2001 - 2005 ACTUAL; 2006 - 2007 BUDGET

	2001 ACTUAL			2002 ACTUAL			2003 ACTUAL			2004 ACTUAL		
	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime
Customer Service	8,321	18	0.2%	7,288	26	0.4%	6,240	60	1.0%	6,240	109	1.8%
Distribution	10,700	525	4.9%	10,400	633	6.1%	8,657	1,056	12.2%	8,257	913	11.1%
Production	14,558	679	4.7%	14,713	798	5.4%	14,076	1,826	13.0%	14,164	2,097	14.8%
TOTAL MOLOKAI	**33,579**	**1,221**	**3.6%**	**32,401**	**1,457**	**4.5%**	**28,973**	**2,942**	**10.2%**	**28,661**	**3,119**	**10.9%**

	2005 ACTUAL			2006 BUDGET			2007 BUDGET		
	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime
Customer Service	6,240	167	2.7%	6,240	80	1.3%	6,264	200	3.2%
Distribution	8,216	720	8.8%	8,320	-399	-4.8%	8,352	1,589	19.0%
Production	14,622	1,887	12.9%	14,560	1,024	7.0%	16,704	-1,070	-6.4%
TOTAL MOLOKAI	**29,078**	**2,774**	**9.5%**	**29,120**	**705**	**2.4%**	**31,320**	**719**	**2.3%**

SOURCE:
Payroll Recap Report, 2001 - 2005

MAUI ELECTRIC COMPANY, LTD.
OVERTIME HOURS AND OVERTIME PERCENTAGE BASED ON HOURS - LANAI ONLY
2001 - 2005 ACTUAL; 2006 - 2007 BUDGET

	2001 ACTUAL			2002 ACTUAL			2003 ACTUAL			2004 ACTUAL		
	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime
Distribution	6,029	687	11.4%	6,200	773	12.5%	6,240	1,189	19.1%	6,240	1,120	17.9%
Production	13,990	1,874	13.4%	11,936	1,770	14.8%	10,392	1,574	15.1%	10,376	1,768	17.0%
TOTAL LANAI	**20,019**	**2,561**	**12.8%**	**18,136**	**2,543**	**14.0%**	**16,632**	**2,763**	**16.6%**	**16,616**	**2,888**	**17.4%**

	2005 ACTUAL			2006 BUDGET			2007 BUDGET		
	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime	Base Hours	Overtime Hours	% Overtime
Distribution	6,241	1,242	19.9%	6,240	984	15.8%	6,264	872	13.9%
Production	10,364	1,629	15.7%	10,400	1,302	12.5%	10,440	3,288	31.5%
TOTAL LANAI	**16,605**	**2,871**	**17.3%**	**16,640**	**2,286**	**13.7%**	**16,704**	**4,160**	**24.9%**

SOURCE:
Payroll Recap Report, 2001 - 2005

MECO T-12
DOCKET NO. 2006-0387

TESTIMONY OF
LYLE J. MATSUNAGA

MANAGER, ACCOUNTING
MAUI ELECTRIC COMPANY, LIMITED

Subject: Depreciation Expense and
Accumulated Depreciation

INTRODUCTION

Q. Please state your name and business address.

A. My name is Lyle J. Matsunaga and my business address is 210 West Kamehameha Avenue, Kahului, Hawaii.

Q. By whom are you employed and in what capacity?

A. I am employed by Maui Electric Company, Limited ("MECO" or "Company") and my title is Manager of Accounting. My educational background and experience are shown in MECO-1200.

Q. What is your area of responsibility in this proceeding?

A. My testimony herein will cover the following areas for MECO's 2007 test year:

1) Depreciation expense, and
2) Accumulated depreciation.

Q. Do you have other areas of responsibility in this proceeding?

A. Yes, I am also MECO's witness for Administrative and General Expenses and Certain Accounting Matters in MECO T-9.

DEPRECIATION EXPENSE

Q. What is the estimated amount of depreciation expense for the 2007 test year?

A. The estimated test year 2007 depreciation expense for total MECO is $28,872,000, comprised of $26,597,000 for Maui, $1,244,000 for Lanai and $1,031,000 for Molokai as shown in MECO-1201.

Q. What is the definition of "depreciation"?

A. The definition of depreciation can be found in the National Association of Regulatory Utility Commissioners Uniform System of Accounts for Class A and B Electric Utilities ("NARUC USOA"), which the Commission has directed MECO to follow. According to the NARUC USOA (see page 1 of the "Definitions" section),

depreciation, as applied to depreciable utility plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of utility plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities.

Q. How is depreciation expense applied in rate proceedings, including this instant proceeding?

A. Depreciation expense is an operating expense that is deducted from operating revenues in the calculation of operating income for the test year.

Q. How was the test year depreciation expense estimate calculated?

A. The 2007 test year depreciation expense estimate was calculated by first determining the estimated test year depreciation accrual and then adjusting for the following items which are discussed in more detail later in this testimony:

1) Vehicle depreciation,
2) Contributions in Aid of Construction (CIAC) amortization,
3) Federal investment tax credit amortization, and
4) Amortization of net regulatory assets and liabilities related to Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes.

Q. How was the test year depreciation accrual determined?

A. The 2007 test year depreciation accrual estimate was determined by multiplying the forecasted depreciable utility plant base as of January 1, 2007, with the Commission approved depreciation rates as shown in MECO-WP-1201.

Q. How was the test year depreciable utility plant base determined?

A. The 2007 test year depreciable utility plant base was determined by calculating the

beginning of the year balance for gross plant in service, and then adjusting the balance to exclude balances for nondepreciable accounts (e.g., land) and fully depreciated accounts.

Q. What are the Commission approved depreciation rates?

A. The Commission approved depreciation rates are the rates resulting from the Company's last Commission approved depreciation study, i.e. the 1986 study. The study was approved by the Commission in Docket No. 5750, Decision and Order No. 9717 issued on April 8, 1988 (as amended by Decision and Order No. 9812 issued on June 29, 1988).

Q. What are the Company's plans for conducting another depreciation study?

A. MECO is currently conducting a depreciation study and intends to file the study with the Commission upon completion.

Q. When does MECO expect to complete the depreciation study?

A. MECO expects to complete the depreciation study in 2007.

Q. With respect to this docket, what does MECO plan to do with the results of the currently on-going depreciation study?

A. Based on when the study is completed and filed with the Commission, and the status of that filing, MECO will consider whether to use the depreciation rates resulting from the study in this proceeding.

Q. What methodology was used in calculating the current Commission approved depreciation rates?

A. The approved depreciation rates are based on the straight line remaining life method for calculating depreciation.

Q. How are the approved depreciation rates applied in computing the test year estimate for the depreciation accrual?

A. As shown in MECO-WP-1202, the approved depreciation rates were applied to the

2006 beginning of year depreciable plant balances by utility plant accounts to calculate the 2006 depreciation accrual amounts. Sub-totals of the 2006 depreciation accrual amounts were then calculated by functional account groups. The functional account group sub-totals for the depreciation accrual were then divided by the 2006 beginning depreciable plant balance for the respective functional group to calculate a composite depreciation rate for each functional group.

Q. What are the "functional account groups"?

A. These are groupings made to segregate utility plant along functional lines of use as provided in the NARUC USOA. The five functional account groups are: (1) production; (2) transmission; (3) distribution; (4) general; and (5) vehicles.

Q. Why is it necessary to calculate a composite depreciation rate for each functional account group rather than use individual depreciation rates on a plant account-by-plant account basis?

A. The Company generally prepares its plant additions forecast on a specific project and blanket component basis as opposed to a plant account-by-plant account basis. (Note that the costs of specific projects and blanket components can be charged to more than one plant account or functional account group.) These plant additions forecasts are then summarized by functional account groups, and not by individual plant accounts. As such, it is necessary to convert the Commission approved depreciation rates, which are calculated by plant account, into composite rates by functional account groups in order to meaningfully calculate the test year estimate for the depreciation accrual.

Q. How were the composite depreciation rates applied in determining the 2007 test year estimated depreciation accrual?

A. The composite depreciation rates were applied to the forecasted 2007 beginning plant balances by functional account group to determine the estimated test year depreciation accrual, as shown in MECO-1203 and MECO-WP-1201.

Q. What adjustments were made to the test year depreciation accrual amount to determine depreciation expense?

A. As noted earlier in this testimony, adjustments were made to the test year depreciation accrual estimate for the following:

1) depreciation accrual for vehicles, adjustment of -$703,000;
2) amortization of CIAC, adjustment of -$2,415,000;
3) amortization of federal investment tax credits, adjustment of -$214,000; and
4) amortization of the net regulatory assets and liabilities related to SFAS 109, adjustment of +$485,000.

These adjustments were netted against the depreciation accrual as shown in MECO-1201. The net amount after applying these adjustments represents the 2007 test year estimate for depreciation expense of $28,872,000 for total MECO.

Q. Why is the annual depreciation accrual for vehicles subtracted from the total depreciation accrual in determining the amount of depreciation expense included in operating expenses?

A. The annual vehicle depreciation accrual is subtracted because it is "cleared" (i.e., charged) to either capital projects or operation and maintenance ("O&M") projects or processes (e.g. the meter reading process) in which the vehicles are used. As a result, vehicle depreciation is included in either the O&M expenses for that particular O&M project or process, or in the subsequent depreciation expense with respect to the utility plant assets created by the capital projects to which the vehicle depreciation is charged. It is necessary, therefore, to subtract the annual vehicle depreciation accrual from the total depreciation accrual to avoid double counting vehicle depreciation expense.

Q. How was the estimated annual vehicle depreciation accrual for test year 2007 determined?

A. The 2007 test year estimate for the vehicle depreciation accrual was determined in the same manner (as was explained earlier in this testimony) as the depreciation accrual for all other functional account groups.

Q. Why is the amortization of CIAC subtracted from the depreciation accrual?

A. CIAC represents cash or in-kind property contributions provided by customers to cover some or all of the costs of certain specific projects. It is appropriate, therefore, to exclude from depreciation expense that portion of plant depreciation related to project costs covered by CIAC. This treatment is consistent with the methodology that was used in Docket No. 97-0346 and accepted by the Commission in amended Decision and Order No. 16922 (April 16, 1999) and used in Docket No. 96-0040 and accepted by the Commission in Decision and Order No. 16134 (December 23, 1997).

Q. How was the amortization of CIAC calculated for test year 2007?

A. The calculation of the $2,415,000 total MECO test year 2007 estimate for the amortization of CIAC is shown in MECO-WP-1204. CIAC amounts are amortized over 30 years, beginning with the year following the year in which the CIAC is recorded. The calculation of the test year estimate starts with the estimated amortization amounts for pre-2005 vintage plant additions. The estimated 30-year amortization amounts for plant added in 2005 and in 2006 are then added to the pre-2005 vintage amounts to arrive at the test year 2007 estimate. Ms. Annabel Arase discusses CIAC further in MECO T-14.

Q. Why is the amortization of federal investment tax credits subtracted from the depreciation accrual?

A. Under SFAS 109, deferred investment tax credits are considered reductions of the cost of the related asset. In order to recognize the effect on net operating income of this "reduction of the cost," the Company subtracts the investment tax credit amortization

from the depreciation accrual. This treatment is consistent with the treatment used in Docket No. 97-0346 and accepted by the Commission in amended Decision and Order No. 16922 (April 6, 1999) and used in Docket No. 96-0040 and accepted by the Commission in Decision and Order No. 16134 (December 23, 1997). Prior to SFAS 109, the investment tax credit amortization was shown as a reduction to estimated income tax expense. Mr. Lon Okada discusses the accounting for federal investment tax credit in MECO T-13.

Q. Why is the depreciation accrual adjusted for the amortization of the net regulatory assets and liabilities related to SFAS 109?

A. Under SFAS 109, the Company is required to treat as temporary book/tax differences certain items that were previously treated as permanent differences. The adjustment to depreciation expense is the mechanism by which the Company offsets the effect of the various gross-ups so that there is no effect on operating income. This adjustment is consistent with the method used in Docket No. 97-0346 and accepted by the Commission in amended Decision and Order No. 16922 (April 6, 1999) and used in Docket No. 96-0040 and accepted by the Commission in Decision and Order No. 16134 (December 23, 1997). Prior to SFAS 109, the adjustment was applied against the income tax expense estimate. Mr. Lon Okada discusses the accounting for net regulatory assets and liabilities related to SFAS 109 in MECO T-13.

Q. How does the 2007 test year estimate for depreciation expense compare with the actual amounts recorded in recent years?

A. As shown in MECO-1201, the total MECO test year 2007 estimate for depreciation expense of $28,872,000 compares with prior year amounts as follows:

Year	Amount ($ Thousands)
2001 Recorded	$21,387

2002 Recorded	22,257
2003 Recorded	23,140
2004 Recorded	24,284
2005 Recorded	25,000
2006 Estimate	25,639
2007 Test Year Estimate	28,872

Q. Why is the $28,872,000 test year estimate $3,872,000 higher than the $25,000,000 recorded for 2005?

A. The 2007 test year estimate is $3,872,000 higher than the 2005 recorded amount due primarily to:

1. Higher depreciation accrual (+$4,147,000);
2. Higher amortization of SFAS 109 net regulatory asset (+$393,000);
3. Higher amortization of CIAC (-$663,000).

<u>1. Higher depreciation accrual ($4,147,000)</u>

Q. Why is the test year estimate for the depreciation accrual $4,147,000 higher than the 2005 recorded accrual?

A. The 2007 test year estimate for the depreciation accrual is $4,147,000 higher than the recorded 2005 accrual due mainly to (a) depreciation of $2,475,000 for Maalaea 18 (added to utility plant in service in 2006); (b) depreciation of $1,247,000 for 2006 plant additions other than Maalaea 18; and (c) depreciation of $1,084,000 for 2005 plant additions. These increases are partially offset by a net decrease for other factors, including a $775,000 decrease for plant accounts that became fully depreciated in 2005 (which would decrease the depreciation accrual for 2006 and 2007).

<u>2. Higher amortization of SFAS 109 net regulatory asset ($393,000)</u>

Q. Why is the estimated test year amortization of the SFAS 109 net regulatory asset $393,000 higher than the amortization recorded for 2005?

A. The estimated 2007 test year amortization of the SFAS 109 net regulatory asset is $393,000 higher than the recorded 2005 amortization due to a higher amortizable base projected for 2007, which is primarily the result of higher Allowance for Funds Used During Construction (AFUDC) amounts for 2005 and 2006. As noted earlier, Mr. Lon Okada discusses the accounting for net regulatory assets and liabilities related to SFAS 109 in MECO T-13.

3. Higher amortization (credit) of CIAC -$663,000

Q. Why is the test year estimate for the amortization of CIAC $663,000 higher than the recorded 2005 amortization?

A. The 2007 test year estimate for the amortization of CIAC is a credit (negative) adjustment, i.e. is a subtraction from the depreciation accrual in arriving at depreciation expense. The test year 2007 estimated CIAC amortization is a $663,000 larger credit than the recorded 2005 amortization due to a higher projected amortizable balance as of January 1, 2007. The estimated January 1, 2007 balance includes projected cash and in-kind CIAC receipts, as well as transfers from customer advances for construction, for 2005 and 2006. As noted earlier, Ms. Annabel Arase discusses CIAC further in MECO T-14.

ACCUMULATED DEPRECIATION

Q. What is the average amount of accumulated depreciation deducted in the calculation of rate base for the 2007 test year?

A. The average amount of accumulated depreciation deducted in the calculation of rate base for the 2007 test year is $354,353,000 for total MECO, comprised of $323,681,000 for Maui, $14,315,000 for Lanai and $16,357,000 for Molokai as shown in MECO-1202.

Q. What is "accumulated depreciation"?

A. Accumulated depreciation is the cumulative total of annual depreciation accrual

amounts, after adjustments for retired assets. Note that part of the accumulated depreciation amount is reclassified as a "cost of removal regulatory liability" for financial reporting purposes, and part of the cost of removal regulatory liability could potentially be reclassified as an asset retirement obligation for financial reporting purposes. These reclassifications are discussed later in this testimony.

Q. What is the treatment of accumulated depreciation in rate proceedings, including this instant proceeding?

A. Accumulated depreciation (including the portion that is reclassified for financial reporting purposes) is deducted from the original cost of plant-in-service in determining the depreciated plant-in-service amount used in calculating rate base.

Q. How does this treatment of accumulated depreciation compare with the treatment in MECO's last rate case?

A. MECO's treatment of accumulated depreciation in this instant docket is the same as the treatment in Docket No. 97-0346, which was accepted by the Commission in amended Decision and Order No. 16822 (April 6, 1999).

Q. How was the 2007 test year estimate of average accumulated depreciation calculated?

A. The 2007 test year estimate of average accumulated depreciation was calculated by adding the estimated accumulated depreciation balances at the beginning and at the end of 2007 (after adjusting the balances to exclude amounts for the Lanai City Power Plant, which exclusion will be explained later), and dividing the total by two. This results in an average accumulated depreciation balance consistent with the Company's utilization of an average rate base for the test year.

Q. How was the estimated beginning 2007 accumulated depreciation balance calculated?

A. The January 1, 2007 balance was calculated as follows (see MECO-1202):

1) Actual accumulated depreciation balance at January 1, 2006 (including, as will be explained later in this testimony, that portion of the balance attributable to salvage

value in excess of the cost of removal that was reclassified for financial reporting purposes)

2) Plus the estimated depreciation accrual for 2006

3) Less estimated 2006 plant retirements

4) Plus the estimated salvage value for 2006 plant retirements

5) Less the estimated cost of removal for 2006 retirements.

6) Plus transfers or other adjustments, if any. This represents transfers or other adjustments between divisions (for example Maui to Lanai) or transfers between utility and non-utility plant accounts.

Q. How was the estimated year end 2007 accumulated depreciation balance calculated?

A. The December 31, 2007 balance was calculated as follows:

1) Estimated accumulated depreciation balance at January 1, 2007 (including, as will be explained later in this testimony, that portion of the balance attributable to salvage value in excess of the cost of removal that would be reclassified for financial reporting purposes)

2) Plus the estimated depreciation accrual for 2007

3) Less estimated 2007 plant retirements

4) Plus the estimated salvage value for 2007 plant retirements

5) Less the estimated cost of removal for 2007 retirements.

6) Plus transfers or other adjustments, if any.

Q. What is the test year estimate for plant retirements?

A. The 2007 test year estimate for plant retirements is $1,068,000 for total MECO, comprised of $1,018,000 for Maui, $6,000 for Lanai and $44,000 for Molokai, as shown in MECO-1202 and MECO-WP-1408. Ms. Annabel Arase discusses plant retirements further in MECO T-14.

Q. What is the test year estimate for salvage value to be received for plant retirements?

A. The 2007 test year estimate of salvage value to be received for plant retirements is $58,000 for total MECO, comprised of $54,000 for Maui, $0 for Lanai and $4,000 for Molokai, as shown in MECO-1202.

Q. How were the 2006 and test year 2007 estimates for salvage value determined?

A. The Company examined the historical ratio of actual salvage value to retirements for all property over the last five completed years (2001 through 2005). A five-year simple average ratio was calculated and then multiplied by the estimated amount of retirements for 2006 and the 2007 test year to determine the estimated amount of salvage value for each year. These calculations are shown in MECO-WP-1205.

Q. What is the test year estimate for cost of removal?

A. The 2007 test year estimate for cost of removal is $1,326,000 for total MECO, comprised of $1,232,000 for Maui, $54,000 for Lanai and $40,000 for Molokai, as shown in MECO-1202.

Q. How were the 2006 and test year 2007 estimates of cost of removal determined?

A. The 2006 and test year 2007 estimates for cost of removal were determined by the project managers and engineers for specific projects and programs in connection with their preparation of the installation cost estimates for those projects and programs.

Q. Why is the test year estimate for cost of removal reasonable?

A. The 2007 test year estimate for the cost of removal is reasonable because it is based on cost estimates prepared by project managers and engineers for specific projects and programs in connection with their preparation of the installation cost estimates for those projects and programs. The project managers and engineers know about the plant and equipment that need to be removed, and the general level of effort that will be required for the removal. Further, as indicated in MECO-WP-1206, the $1,326,000 test year estimate for cost of removal is 10.8% of the estimated installation costs for projects and programs which have removal costs. The 10.8% is consistent with the

10.0% actual historical average over the most recent five completed years (2001 through 2005).

Lanai City Power Plant Adjustment

Q. What is the rate-making adjustment applied to the 2007 test year beginning of year and end of year balances for accumulated depreciation?

A. The rate-making adjustment is to exclude the accumulated depreciation amounts for the Lanai City Power Plant.

Q. Why were accumulated depreciation amounts for the Lanai City Power Plant excluded from the 2007 test year estimates?

A. Accumulated depreciation amounts for the Lanai City Power Plant were excluded from the 2007 test year estimates based on the Company's agreement with the CA in prior MECO rate cases (Docket Nos. 97-0346, 96-0040 and 94-0345) to exclude the total net book value of the Lanai City Power Plant from test year depreciated plant-in-service. The Company also agreed to exclude the depreciation related to the Lanai City Power Plant but to include the amortization of the net book value of those assets as of December 31, 1995 over a 7 year period. Accordingly, the test year 2007 beginning and ending utility plant in service and accumulated depreciation balances have been adjusted to exclude balances related to the Lanai City Power Plant.

Q. What were the Lanai City Power Plant rate-making adjustment amounts?

A. The Lanai City Power Plant rate-making adjustment amount of $240,000 reduced the estimated beginning and year end accumulated depreciation balances for test year 2007.

Reclassifications for Financial Reporting Purposes

Q. What is the reclassification of the cost of removal regulatory liability for financial reporting purposes?

A. In February 2004, the Securities and Exchange Commission (SEC) staff provided

guidance that, beginning with financial statements for the year ended December 31, 2003, the portion of the depreciation expense calculation designed to recover future net salvage (salvage value in excess of the cost of removal) should be classified as a regulatory liability. Based on the SEC staff guidance, MECO began reclassifying the estimated future net salvage portion of its accumulated depreciation balance as a regulatory liability, beginning with the December 31, 2003 balance. In addition, beginning in December 2005, MECO adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. ("FIN") 47, "Accounting for Conditional Asset Retirement Obligation", which requires the recognition of a liability for the fair value of a legal obligation to perform asset-retirement activities (an asset retirement obligation, or "ARO"). The amounts that are reclassified from accumulated depreciation for financial reporting purposes are part of the depreciation rates and depreciation expense, and have been included as part of accumulated depreciation in the past. These amounts should continue to be included in depreciation expense and accumulated depreciation for determining revenue requirements.

Q. What are the Company's estimated beginning and year end 2007 test year balances for its regulatory liability with respect to future net salvage included in accumulated depreciation?

A. The estimated reclassification from accumulated depreciation to regulatory liability for financial statement purposes is $32,290,000 at the beginning of the 2007 test year and $35,053,000 at year end as shown in MECO-WP-1502.

Q. What impact does this reclassification have on rate base?

A. The reclassification has no effect on rate base.

Q. What is the impact of the Company's adoption of FIN 47, "Accounting for Conditional Asset Retirement Obligations?

A. There was no impact on the Company's financial statements as a result of adopting

FIN 47 and, as a result, there are no amounts to be reclassified from accumulated depreciation to regulatory liability for financial reporting purposes and for purposes of this proceeding.

SUMMARY

Q. Please summarize your depreciation testimony.

A. My testimony covers (1) depreciation expense, which is a component of the Company's operating expenses and (2) the average accumulated depreciation balance, which is a reduction in the calculation of rate base. Depreciation expense for test year 2007 is $28,872,000 for total MECO, comprised of $26,597,000 for Maui, $1,244,000 for Lanai and $1,031,000 for Molokai. The average accumulated depreciation balance for test year 2007 is $354,353,000 for total MECO, comprised of $323,681,000 for Maui, $14,315,000 for Lanai and $16,357,000 for Molokai.

Q. Does this conclude your testimony?

A. Yes, it does.

LYLE J. MATSUNAGA

EDUCATIONAL BACKGROUND AND EXPERIENCE

Business Address:	Maui Electric Company, Limited 210 West Kamehameha Ave. Kahului, HI 96732
Current Position:	Manager of Accounting
Years of Service:	7 years
Education:	University of Washington Masters of Business Administration Bachelor of Arts - Economics
Professional License:	Certified Public Accountant (not in public practice) State of Hawaii

Maui Electric Company, Limited
Depreciation Expense
For Years 2001-2007

(In Thousands)

		(A)	(B)	(C)	(D)	(E)	(F)	(G)
		Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Estimate 2006	Test Yr Est 2007
	MAUI							
1	Depreciation Accrual (*)	20,793	21,715	22,702	24,158	24,836	25,606	29,167
2	Vehicle Depreciation (*)	(412)	(450)	(550)	(619)	(585)	(637)	(613)
3	Amort of CIAC (**)	(1,143)	(1,214)	(1,230)	(1,527)	(1,614)	(1,863)	(2,178)
4	Amort of Federal ITC (***)	(260)	(260)	(256)	(248)	(244)	(222)	(212)
5	Net Reg Asset/Liab Amort (****)	22	52	47	75	83	280	434
6	Net Depreciation Expense	18,999	19,843	20,712	21,840	22,476	23,164	26,597
	LANAI							
7	Depreciation Accrual (*)	1,174	1,188	1,206	1,243	1,283	1,343	1,344
8	Vehicle Depreciation (*)	(16)	(10)	(27)	(34)	(30)	(34)	(34)
9	Amort of CIAC (**)	(37)	(42)	(42)	(65)	(70)	(85)	(88)
10	Amort of Federal ITC (***)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
11	Net Reg Asset/Liab Amort (****)	1	3	3	4	4	15	23
12	Net Depreciation Expense	1,121	1,137	1,138	1,146	1,184	1,237	1,244
	MOLOKAI							
13	Depreciation Accrual (*)	1,404	1,450	1,450	1,434	1,454	1,436	1,208
14	Vehicle Depreciation (*)	(75)	(112)	(99)	(74)	(52)	(87)	(56)
15	Amort of CIAC (**)	(63)	(64)	(65)	(66)	(67)	(129)	(149)
16	Amort of Federal ITC (***)	-	-	-	-	-	-	-
17	Net Reg Asset/Liab Amort (****)	1	3	3	5	5	18	28
18	Net Depreciation Expense	1,267	1,277	1,289	1,299	1,340	1,238	1,031
	TOTAL MECO							
19	Depreciation Accrual (*)	23,371	24,353	25,357	26,835	27,572	28,385	31,719
20	Vehicle Depreciation (*)	(503)	(571)	(675)	(727)	(667)	(758)	(703)
21	Amort of CIAC (**)	(1,243)	(1,321)	(1,337)	(1,658)	(1,752)	(2,077)	(2,415)
22	Amort of Federal ITC (***)	(262)	(262)	(258)	(250)	(246)	(224)	(214)
23	Net Reg Asset/Liab Amort (****)	24	58	53	84	92	313	485
24	Net Depreciation Expense	21,387	22,257	23,140	24,284	25,000	25,639	28,872

(*) Source: MECO-WP-1201
(**) Source: MECO-WP-1204
(***) Source: MECO-1303
(****) Source: MECO-1306. As noted in MECO-1306, the division allocation for the amortization of the Federal ITC regulatory asset is incorrect and will be corrected at the next available opportunity.

Maui Electric Company, Limited
Accumulated Depreciation
For Years 2001-2007

(In Thousands)

		(A)	(B)	(C)	(D)	(E)	(F)	(G)
		Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Estimate 2006	Test Yr Est 2007
	MAUI							
1	Accum Deprn @ 1/1	182,641	202,583	220,772	241,006	262,319	286,075	310,195
2	Depreciation Accrual (*)	20,793	21,715	22,701	24,158	24,836	25,606	29,167
3	Retirements (**)	(855)	(699)	(1,241)	(1,987)	(357)	(1,022)	(1,018)
4	Salvage (**)	4	50	71	107	54	107	54
5	Cost of Removal	-	(2,853)	(1,280)	(965)	(777)	(1,205)	(1,232)
6	Transfers/Other	-	(24)	(17)	-	-	635	-
7	Accum Deprn @ 12/31	202,583	220,772	241,006	262,319	286,075	310,195	337,166
	Rate Case Adjustment:							
8	None							
9	Adj Accum Deprn @ 12/31	202,583	220,772	241,006	262,319	286,075	310,195	337,166
10	Average Balance							323,681

		(A)	(B)	(C)	(D)	(E)	(F)	(G)
		Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Estimate 2006	Test Yr Est 2007
	LANAI							
11	Accum Deprn @ 1/1	6,959	8,108	9,284	10,389	11,526	12,630	13,913
12	Depreciation Accrual (*)	1,174	1,188	1,206	1,243	1,283	1,343	1,344
13	Retirements (**)	(25)	(20)	(102)	(40)	(1)	(6)	(6)
14	Salvage (**)	-	-	-	9	-	-	-
15	Cost of Removal	-	(7)	-	(74)	(177)	(53)	(54)
16	Transfers/Other	-	15	1	-	-	-	-
17	Accum Deprn @ 12/31	8,108	9,284	10,389	11,527	12,630	13,913	15,198
	Rate Case Adjustment:							
18	Accum Depn Lanai City PP	(240)	(240)	(240)	(240)	(240)	(240)	(240)
19	Adj Accum Deprn @ 12/31	7,868	9,044	10,149	11,287	12,390	13,673	14,958
20	Average Balance							14,315

(*) Source: MECO-WP-1201
(**) Source: MECO-WP-1205

Maui Electric Company, Limited
Accumulated Depreciation
For Years 2001-2007

(In Thousands)

		(A)	(B)	(C)	(D)	(E)	(F)	(G)
	MOLOKAI	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Actual 2005	Estimate 2006	Test Yr Est 2007
1	Accum Deprn @ 1/1	7,591	8,994	10,452	11,707	12,991	14,407	15,793
2	Depreciation Accrual (*)	1,404	1,450	1,450	1,434	1,454	1,436	1,208
3	Retirements (***)	(1)	-	(137)	(91)	(1)	(11)	(44)
4	Salvage (**)	-	-	-	5	15	-	4
5	Cost of Removal	-	(1)	(74)	(65)	(52)	(39)	(40)
6	Transfers/Other	-	9	16	-	-	-	-
7	Accum Deprn @ 12/31	8,994	10,452	11,707	12,990	14,407	15,793	16,921
	Rate Case Adjustment:							
8	None							
9	Adj Accum Deprn @ 12/31	8,994	10,452	11,707	12,990	14,407	15,793	16,921
10	Average Balance							16,357

		(A)	(B)	(C)	(D)	(E)	(F)	(G)
	TOTAL MECO	*Actual 2001*	*Actual 2002*	*Actual 2003*	*Actual 2004*	*Actual 2005*	*Estimate 2006*	*Test Yr Est 2007*
11	Accum Deprn @ 1/1	197,191	219,685	240,508	263,102	286,836	313,112	339,902
12	Depreciation Accrual (*)	23,371	24,353	25,357	26,835	27,573	28,385	31,719
13	Retirements (**)	(881)	(719)	(1,480)	(2,118)	(359)	(1,039)	(1,068)
14	Salvage (**)	4	50	71	121	69	107	58
15	Cost of Removal (***)	-	(2,861)	(1,354)	(1,104)	(1,006)	(1,298)	(1,326)
16	Transfers/Other	-	-	-	-	-	635	-
17	Accum Deprn @ 12/31	219,685	240,508	263,102	286,836	313,112	339,902	369,285
	Rate Case Adjustment:							
18	Accum Depn Lanai City PP	(240)	(240)	(240)	(240)	(240)	(240)	(240)
19	Adj Accum Deprn @ 12/31	219,445	240,268	262,862	286,596	312,872	339,662	369,045
20	Average Balance							354,353

(*) Source: MECO-WP-1201
(**) Source: MECO-WP-1205
(***) Source: MECO-WP-1206

Maui Electric Company, Limited
Depreciation Accrual by Functional Category
2006 - 2007

(In Thousands)

MAUI

	Functional Category	(A) Deprec Plant at 1/1/06	(B) Composite Deprn Rate	(C) 2006 Dep Accr	(D) Deprec Plant at 1/1/07	(E) Composite Deprn Rate	(F) 2007 Dep Accr
1	Production	233,891	4.00%	9,355	294,526	4.01%	11,807
2	Transmission	90,076	3.37%	3,033	94,217	3.37%	3,175
3	Distribution	230,702	4.60%	10,613	250,171	4.60%	11,508
4	General	32,753	6.01%	1,968	34,849	5.92%	2,063
5	Vehicles	8,072	7.89%	637	7,776	7.88%	614
6	TOTAL	595,494	4.30%	25,606	681,539	4.28%	29,167

LANAI

	Functional Category	(A) Deprec Plant at 1/1/06	(B) Composite Deprn Rate	(C) 2006 Dep Accr	(D) Deprec Plant at 1/1/07	(E) Composite Deprn Rate	(F) 2007 Dep Accr
1	Production	17,081	4.54%	775	17,123	4.54%	777
2	Transmission	-	N/A	-	-	N/A	-
3	Distribution	10,419	4.55%	474	10,414	4.55%	474
4	General	1,097	5.47%	60	1,064	5.58%	59
5	Vehicles	435	7.82%	34	435	7.76%	34
6	TOTAL	29,032	4.63%	1,343	29,036	4.63%	1,344

Source: MECO-WP-1201

Maui Electric Company, Limited
Depreciation Accrual by Functional Category
2006 - 2007

(In Thousands)

MOLOKAI

	Functional Category	(A) Deprec Plant at 1/1/06	(B) Composite Deprn Rate	(C) 2006 Dep Accr	(D) Deprec Plant at 1/1/07	(E) Composite Deprn Rate	(F) 2007 Dep Accr
1	Production	19,983	4.48%	895	20,035	3.49%	699
2	Transmission	704	3.27%	23	704	3.33%	23
3	Distribution	10,837	3.48%	377	10,834	3.48%	377
4	General	1,284	4.13%	53	1,276	4.09%	52
5	Vehicles	880	9.89%	87	627	8.89%	56
6	TOTAL	33,688	4.26%	1,435	33,476	3.61%	1,207

TOTAL MECO

	Functional Category	(A) Deprec Plant at 1/1/06	(B) Composite Deprn Rate	(C) 2006 Dep Accr	(D) Deprec Plant at 1/1/07	(E) Composite Deprn Rate	(F) 2007 Dep Accr
1	Production	270,955	4.07%	11,025	331,684	4.00%	13,283
2	Transmission	90,780	3.37%	3,056	94,921	3.37%	3,198
3	Distribution	251,958	4.55%	11,464	271,419	4.55%	12,359
4	General	35,134	5.92%	2,081	37,190	5.85%	2,174
5	Vehicles	9,387	8.07%	758	8,838	7.97%	704
6	TOTAL	658,214	4.31%	28,384	744,053	4.26%	31,718

Source: MECO-WP-1201

Maui Electric Company, Limited
Summary of Depreciable Plant
Balance, Accumulated Depreciation
and Annual Depreciation Accruals

(In Thousands)

		(A)	(B)	(C)	(D)	(E)
		Depreciable Plant Bal Beginning of Year	Deprn Accruals During Year*	Deprn Accruals As Percent of Plant	Accumulated Depreciation Beginning of Year	As Percent of Plant
	MAUI					
1	2001 Act	490,071	20,793	4.07%	182,641	35.71%
2	2002 Act	511,439	21,715	4.07%	202,583	37.98%
3	2003 Act	533,327	22,701	4.02%	220,772	39.07%
4	2004 Act	565,135	24,158	4.09%	241,006	40.78%
5	2005 Act	590,945	24,836	4.17%	262,319	44.05%
6	2006 Est	595,494	25,606	4.30%	286,075	48.04%
7	2007 TY	681,539	29,167	4.28%	310,195	45.51%
	LANAI					
8	2001 Act	25,395	1,174	4.58%	6,959	27.17%
9	2002 Act	25,615	1,188	4.56%	8,108	31.14%
10	2003 Act	26,041	1,206	4.51%	9,284	34.69%
11	2004 Act	26,764	1,243	4.47%	10,389	37.39%
12	2005 Act	27,788	1,283	4.42%	11,527	39.70%
13	2006 Est	29,032	1,343	4.63%	12,630	43.50%
14	2007 TY	29,036	1,344	4.63%	13,913	47.92%
	MOLOKAI					
15	2001 Act	30,990	1,404	4.47%	7,591	24.17%
16	2002 Act	31,402	1,450	4.58%	8,994	28.42%
17	2003 Act	31,652	1,450	4.57%	10,453	32.92%
18	2004 Act	31,751	1,434	4.35%	11,708	35.51%
19	2005 Act	32,970	1,454	4.32%	12,991	38.56%
20	2006 Est	33,688	1,436	4.26%	14,407	42.77%
21	2007 TY	33,476	1,208	3.61%	15,793	47.18%
	MECO					
22	2001 Act	546,456	23,371	4.11%	197,191	34.69%
23	2002 Act	568,456	24,353	4.12%	219,685	37.17%
24	2003 Act	591,020	25,357	4.07%	240,509	38.56%
25	2004 Act	623,650	26,835	4.12%	263,103	40.37%
26	2005 Act	651,703	27,573	4.19%	286,837	43.58%
27	2006 Est	658,214	28,385	4.31%	313,112	47.57%
28	2007 TY	744,051	31,719	4.26%	339,902	45.68%

* Includes amortization and depreciation on vehicles

Source:
MECO-WP-1201 for Columns A and B, Lines 6-7, 13-14, 20-21 and 27-28
MECO-1202 for Columns D, Lines 6-7, 13-14, 20-21 and 27-28