

HAWAIIAN ELECTRIC INDUSTRIES INC
Form 8-K
October 21, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: October 20, 2008

| Exact Name of Registrant | Commission | I.R.S. Employer |
|---|--------------------|---------------------------|
| as Specified in Its Charter | File Number | Identification No. |
| Hawaiian Electric Industries, Inc. | 1-8503 | 99-0208097 |
| Hawaiian Electric Company, Inc. | 1-4955 | 99-0040500 |

State of Hawaii

(State or other jurisdiction of incorporation)

900 Richards Street, Honolulu, Hawaii 96813

(Address of principal executive offices and zip code)

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Registrant's telephone number, including area code:

(808) 543-5662 - Hawaiian Electric Industries, Inc. (HEI)

(808) 543-7771 - Hawaiian Electric Company, Inc. (HECO)

None

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry into a Material Definitive Agreement.

On October 20, 2008, the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the State of Hawaii Department of Commerce and Consumer Affairs, and Hawaiian Electric Company, Inc. (HECO), on behalf of itself and its subsidiaries, Hawaii Electric Light Company, Inc. (HELCO) and Maui Electric Company, Limited (MECO) (collectively, the parties), signed an Energy Agreement setting forth the goals and objectives of a Hawaii Clean Energy Initiative (HCEI) and the related commitments of the parties (the agreement). The agreement provides that the parties pursue a wide range of actions with the purpose of decreasing the State of Hawaii's dependence on imported fossil fuels through substantial increases in the use of renewable energy and implementation of new programs intended to secure greater energy efficiency and conservation.

The parties recognize that the move toward a more renewable and distributed and intermittent powered system will pose increased operating challenges to the utilities and that there is a need to assure that Hawaii preserves a stable electric grid to minimize disruption to service quality and reliability. They further recognize that Hawaii needs a system of utility regulation to transform the utilities from traditional sales-based companies to energy services companies while preserving financially sound utilities.

Many of the actions and programs included in the agreement will require approval of the Public Utilities Commission of the State of Hawaii (PUC) in proceedings that will need to be initiated by the PUC or the utilities.

Among the major provisions of the agreement most directly affecting HECO and its subsidiaries are the following:

The agreement provides for the parties to pursue an overall goal of providing 70% of Hawaii's electricity and ground transportation energy needs from clean energy sources, including renewable energy and energy efficiency, by 2030. The ground transportation energy needs included in this goal include a contemplated move in Hawaii to electrification of transportation and the use of electric utility capacity in off peak hours to recharge vehicles and batteries. To promote the transportation goals, the agreement provides for the parties to evaluate and implement incentives to encourage adoption of electric vehicles, and to lead by example by acquiring hybrid or electric-only vehicles for government and utility fleets.

To help achieve the HCEI goals, the agreement further provides for the parties to seek amendment to the Hawaii Renewable Portfolio Standards (RPS) law (law which establishes renewable energy requirements for electric utilities that sell electricity for consumption in the State) to increase the current requirements from 20% to 25% by the year 2020, and to add a further RPS goal of 40% by the year 2030. The revised RPS law would also require that after 2014 the RPS goal be met solely with renewable energy generation versus including energy savings from energy efficiency measures. However, energy savings from energy efficiency measures would be counted toward the achievement of the overall HCEI 70% goal.

To further encourage the contributions of energy efficiency to the overall HCEI goal, the agreement provides for the parties to seek establishment of energy efficiency goals through an Energy Efficiency Portfolio Standard.

The agreement provides for the establishment of a Clean Energy Infrastructure Surcharge (CEIS). The CEIS, which would need to be approved by the PUC, would be designed to expedite cost recovery for a variety of infrastructure that supports greater use of renewable energy or grid efficiency within the utility.

systems (such as advanced metering, energy storage, interconnections and interfaces). The agreement provides that the surcharge should be available to recover costs that would normally be expensed in the year incurred and capital costs (including the allowed return on investment, AFUDC, depreciation, applicable taxes and other approved costs), and could also be used to recover costs stranded by clean energy initiatives.

HECO and its subsidiaries will continue to negotiate with developers of currently proposed projects (identified in the agreement) to integrate approximately 1100 MW from a variety of renewable energy sources, including solar, biomass, wind, ocean thermal energy conversion, wave, and others. This includes HECO's commitment to integrate, with the assistance of the State of Hawaii, up to 400 MW of wind power into the Oahu electrical grid that would be imported via a yet-to-be-built undersea transmission cable system from wind farms proposed by developers to be built on the islands of Lanai and/or Molokai. Utilizing technical resources such as the U.S. Department of Energy national laboratories, HECO, along with the other parties, have committed to work together to evaluate, assess and address the operational challenges for integrating such a large increment of wind into its grid system on Oahu. The State and HECO agree to work together to ensure the supporting infrastructure needed for the Oahu grid is in place to reliably accommodate this large increment of wind power, including appropriate additional storage capacity investments and any required utility system connections or interfaces with the cable and the wind farm facilities.

With respect to the undersea transmission cable system, the State agrees to seek, with HECO and/or developers' reasonable assistance, federal grant or loan assistance to pay for the undersea cable systems. In the event federal funding is unavailable, the State will employ its best effort to fund the undersea cable systems through a prudent combination of taxpayer and ratepayer sources. There is no obligation on the part of HECO to fund any of the cost of the undersea cable. However, in the event HECO funds any part of the cost to develop the undersea cable systems and assumes any ownership of the cable systems, all reasonably incurred capital costs and expenses shall be recoverable through the CEIS.

As another method of accelerating the acquisition of renewable energy by the utilities, the agreement includes support of the parties for the development of a feed-in tariff system with standardized purchase prices for renewable energy. The PUC is requested to conclude an investigative proceeding by March 2009 to determine the best design for feed-in tariffs that support the HCEI goals, considering such factors as categories of renewables, size or locational limits for projects qualifying for the feed-in tariff, what annual limits should apply to the amount of renewables allowed to utilize the feed-in tariff, what factors to incorporate into the prices set for feed-in tariff payments, and other terms and conditions. Based on these understandings, the agreement provides that the parties request the PUC to suspend the pending intra-governmental wheeling docket for a period of 12 months.

The agreement also provides that system-wide caps on net energy metering should be removed. Instead, all distributed generation interconnections, including net metered systems, should be limited on a per-circuit basis to no more than 15% of peak circuit demand, to encourage the development of more cost effective distributed resources while still maintaining safe reliable service.

The agreement includes support of the parties for the development and use of renewable biofuels for electricity generation, including the testing of the technical feasibility of using biofuel or biofuel blends in HECO, HELCO and MECO generating units. The parties agree that use of biofuels in the utilities' generating units, particularly biofuels from local sources, can contribute to achieving RPS requirements and decreasing greenhouse gas emissions, while avoiding major capital investment for new, replacement generation.

In recognition of the need to recover the infrastructure and other investments required to support significantly increased levels of renewable energy and to eliminate the potential conflict between encouraging energy efficiency and conservation and lower sales revenues, the parties agree that it is appropriate to adopt a regulatory rate-making model, which is subject to PUC approval, under which HECO, HELCO and MECO revenues would be decoupled from kilowatt hour sales. If approved by the PUC, the new regulatory model, which is similar to the regulatory models currently used in California, would employ a revenue adjustment mechanism to track on an ongoing basis the differences between the amount of revenues allowed in the last rate case and (a) the current costs of providing electric service and (b) a reasonable return on and return of additional capital investment in the electric system.

The utilities would also continue to use existing PUC-approved tracking mechanisms for pension and other post-retirement benefits. The utilities would also be allowed an automatic revenue adjustment mechanism to reflect changes in state or federal tax rates. The PUC will be requested to incorporate implementation of the new regulatory model in the PUC's future interim decision and order in HECO's 2009 rate case. The agreement also contemplates that additional rate cases based on a 2009 test year will be filed for HELCO and MECO in order to provide their respective baselines for implementation of the new regulatory model.

The agreement confirms that the existing Energy Cost Adjustment Clause will continue, subject to periodic review by the PUC. As part of that review, the parties agree that the PUC will examine whether there are renewable energy projects from which the utility should have, but did not purchase energy or whether alternate fuel purchase strategies were appropriately used or not used.

With PUC approval, a separate surcharge would be established to allow HECO and its subsidiaries to pass through all reasonably incurred purchased power costs, including all capacity, operation and maintenance expenses and other non-energy payments approved by the PUC which are currently recovered through base rates, with the surcharge to be adjusted monthly and reconciled quarterly.

The agreement includes a number of other undertakings intended to accomplish the purposes and goals of the HCEI, subject to PUC approval and including, but not limited to: (a) promoting through specifically proposed steps greater use of solar energy through solar water heating, commercial and residential photovoltaic energy installations and concentrated solar power generation; (b) providing for the retirement or placement on reserve standby status of older and less efficient fossil fuel fired generating units as new, renewable generation is installed; (c) improvement and expansion of load management and demand response programs that allow the utilities to control customer loads to improve grid reliability and cost management; (d) the filing of PUC applications this year for approval of the installation of Advanced Metering Infrastructure, coupled with time-of-use or dynamic rate options for customers; (e) supporting prudent and cost effective investments in smart grid technologies, which become even more important as wind and solar generation is added to the grid; (f) 10% of the energy purchased under feed-in tariffs will be included in each utility's respective rate base through January 2015; and (g) delinking prices paid under all new renewable energy contracts from oil prices.

A copy of the HCEI agreement will be attached as an exhibit to the Company's third quarter 2008 Form 10-Q filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature of the undersigned companies shall be deemed to relate only to matters having reference to such companies and any subsidiaries thereof.

HAWAIIAN ELECTRIC INDUSTRIES, INC.
(Registrant)

/s/ Curtis Y. Harada
Curtis Y. Harada
Controller and Acting Financial Vice President,
Treasurer, and Chief Financial Officer
(Principal Financial Officer of HEI)
Date: October 21, 2008

HAWAIIAN ELECTRIC COMPANY, INC.
(Registrant)

/s/ Tayne S. Y. Sekimura
Tayne S. Y. Sekimura
Senior Vice President, Finance and
Administration
(Principal Financial Officer of HECO)
Date: October 21, 2008