

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application of )  
HAWAIIAN ELECTRIC COMPANY, INC. )  
For Approval of Projects Proposed to )  
Be Financed Through the Sale of )  
Special Purpose Revenue Bonds and )  
Certification that the Projects are )  
for the Local Furnishing of Electric )  
Energy, and Approval of the Issuance )  
of Special Purpose Revenue Bonds and )  
Related Notes and Guarantee, and )  
Approval to Enter into Related )  
Agreements and to Use Expedited )  
Approval Procedure. )

DOCKET NO. 99-0120

RECEIVED  
2002 AUG 30 P 3:39  
HAWAIIAN ELECTRIC COMPANY  
PUBLIC UTILITIES COMMISSION  
CHIEF CLERK

DECISION AND ORDER NO. 19548

Filed August 30 2002  
At 8:00 o'clock A.M.

Karen Higashi  
Chief Clerk of the Commission

ATTEST: A True Copy  
KAREN HIGASHI  
Chief Clerk, Public Utilities  
Commission, State of Hawaii.

K. Higashi

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DECISION AND ORDER

I.

By Decision and Order No. 19525, filed on August 15, 2002, in this docket (Decision and Order No. 19525), the commission, among other things, granted HAWAIIAN ELECTRIC COMPANY, INC. (HECO or Applicant) supplemental authority to participate in the sale of special purpose revenue bonds (revenue bonds) under Act 262, 1998 Session Laws of Hawaii (Act 262) by the Department of Budget and Finance of the State of Hawaii (department). By a letter filed on August 27, 2002 (HECO's letter), HECO requests that the commission approve

the inclusion of two new mandatory redemption events (redemption provisions) in the financing documents for the revenue bonds, which the revenue bond insurer is requiring as a condition for its sale of revenue bond insurance.

HECO informed the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy (Consumer Advocate) of the requirement to include the redemption provisions in the financing documents. In HECO's letter, the Consumer Advocate represents that it agrees and does not object to HECO's request.

## II.

### A. Background

By Decision and Order No. 17253, filed on September 27, 1999, in this docket (Decision and Order No. 17253), the commission, among other things, granted HECO and Hawaii Electric Light Company, Inc. the authority to borrow from the department the proceeds of the sale by the department from time to time of revenue bonds authorized by Act 262, within certain parameters. Decision and Order No. 17253 authorized the purchase of bond insurance as follows:

11. Applicants are authorized to purchase bond insurance for one or more series of revenue bonds issued under Act 262, and to pay the related insurance premiums, if the sale or sales of revenue bonds can be concluded on a timely basis with the purchase of insurance, and if, in the judgment of Applicants, the purchase of bond insurance is desirable, taking into consideration the net cost savings (after taking into account the insurance premiums that must be paid by Applicants to obtain such insurance) weighed against the disadvantages of any required negative covenant.

12. In the event that any of the revenue bond financings are to be insured, Applicants are authorized to enter into any agreements that may be required to obtain such insurance, and to include such terms in the financing documents as may be required by the bond insurers or as otherwise may be necessary or desirable to complete the related proposed sale or sales of revenue bonds on an insured basis.

13. Each of HECO and HELCO is authorized to enter into one or more negative covenant agreements with the bond insurer in connection with each series of revenue bonds, should bond insurance be purchased and should a negative covenant be required, which would in substance provide that, without the consent of the bond insurer (which consent may not be unreasonably withheld), such Applicant will not issue first mortgage bonds or other secured debt without equally and ratably securing the debt to be insured by the bond insurer, with exceptions to the covenant which will be negotiated by officers of Applicants with assistance of counsel.<sup>1</sup>

Decision and Order No. 19525 sets forth the parameters within which supplemental revenue bonds would be issued. The parameters included, among others, the following:

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<sup>1</sup>Decision and Order No. 17253 at 18-19.

6. The redemption provisions will be substantially as provided for in connection with the previous series of revenue bonds or refunding revenue bonds issued for the benefit of HECO, Maui Electric Company, Limited, and HELCO, except (a) if an optional redemption is permitted, the period which must elapse before an optional redemption may occur, and/or the redemption premium schedule or methodology, may be changed and/or (b) if more than one series of revenue bonds is issued, the redemption provisions may vary as between each series of revenue bonds.

7. The covenants governing the revenue bonds will be substantially as provided for in other series of revenue bonds issued for the benefit of Applicant.<sup>2</sup>

Additionally, Decision and Order No. 19525 provided that:

5. Applicant is granted such further relief as may be necessary or desirable in order to enable Applicant to carry out the revenue bond financings, described in the motion, provided that Applicant notifies the commission of the nature of such relief prior to taking any actions thereon.<sup>3</sup>

B. New Redemption Provisions

By its letter filed on August 27, 2002, HECO informed the commission that the bond insurer for the revenue bonds is requiring as a condition for its sale of bond insurance for the revenue bonds that the redemption provisions be included in the financing documents.<sup>4</sup> The first of the redemption provisions

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<sup>2</sup>Decision and Order No. 19525 at 10.

<sup>3</sup>Id. at 12.

<sup>4</sup>HECO states that the redemption provisions will be included

would make the bonds subject to mandatory redemption prior to the maturity date if the following events occur: (1) HECO reorganizes, or transfers a substantial portion of its assets, (2) the reorganization or transfer results in HECO no longer being engaged in the business of the distribution of electricity in the City and County of Honolulu, (3) the obligations of HECO under the loan agreement and the note are not assumed or guaranteed by the resulting entity that is thereafter to engage in the distribution of electricity in the City and County of Honolulu, and (4) the bond insurer does not consent to the reorganization or transfer. HECO states that this mandatory redemption provision is being required due to the bond insurer's concerns, arising out of utility restructuring on the mainland, that bond obligations that it insures would be assumed by unregulated entities with different credit rating characteristics than those of the regulated utility companies that initially issued the insured bonds.

The second redemption provision would make the bonds subject to mandatory redemption prior to the maturity date if HECO fails to pay insurance premiums due in future years. This second provision would be included only if HECO elects the option of paying the bond insurance premium in steps. Under this option, there would be an upfront payment, with annual payments

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in the loan agreement, the note and the trust indenture.

beginning in the year in which the bonds would first be subject to optional redemption - usually 10 years after the initial issue date, but the period could be as short as five years after the issue date.

Upon review of the record, we find that inclusion of the foregoing redemption provisions outlined in HECO's letter dated and filed on August 27, 2002, are reasonable and should, therefore, be approved.

III.

THE COMMISSION ORDERS that HECO's request for approval of the inclusion of the redemption provisions outlined in its letter dated and filed on August 27, 2002, is granted.


DONE at Honolulu, Hawaii this 30th day of August, 2002.

PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

By   
Wayne H. Kimura, Chairman

By   
Janet E. Kawelo, Commissioner

APPROVED AS TO FORM:

  
Catherine P. Awakuni  
Commission Counsel  
99-0120.eh

CERTIFICATE OF SERVICE

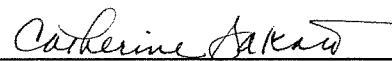
I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 19548 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
DIVISION OF CONSUMER ADVOCACY  
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Catherine Sakato  
Clerk

DATED: August 30, 2002