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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of HAWAIIAN ELECTRIC COMPANY, INC. and HAWAII ELECTRIC LIGHT COMPANY, INC. For the Approval of the Issuance of Refunding Special Purpose Revenue Bonds and Related Notes and Guarantees, and Authorization to Enter into Related Agreements.	DOCKET NO. 03-0045

DECISION AND ORDER NO. 20120

Filed April 14, 2003

At 10:30 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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In the Matter of the Application of HAWAIIAN ELECTRIC COMPANY, INC. and HAWAII ELECTRIC LIGHT COMPANY, INC. For the Approval of the Issuance of Refunding Special Purpose Revenue Bonds and Related Notes and Guarantees, and Authorization to Enter into Related Agreements.	Docket No. 03-0045 Decision and Order No. 20120

DECISION AND ORDER

I.

By application, filed on February 21, 2003, HAWAIIAN ELECTRIC COMPANY, INC. (HECO) and HAWAII ELECTRIC LIGHT COMPANY, INC. (HELCO) (hereinafter collectively referred to as Applicants or Companies) request the approval to participate, in their discretion, in one or more sales by the Department of Budget and Finance of the State of Hawaii (department) of refunding special purpose revenue bonds (Refunding Bonds) for the benefit of the Companies in the aggregate principal amount of up to $66 million. Applicants make their requests pursuant to Hawaii Revised Statutes (HRS) § 269-17 and Hawaii Administrative Rules (HAR) title 6, chapter 61, subchapter 9.

The Applicants served copies of their application on the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy (Consumer Advocate). On March 24, 2003, the Consumer Advocate served information requests upon the

Applicants, to which they responded on March 28, 2003. By position statement filed on April 9, 2003, the Consumer Advocate informed the commission that it does not object to the approval of the instant application.

II.

A. Applicants

HECO and HELCO, both Hawaii corporations, are public utilities engaged in the production, purchase, transmission, distribution, and sale of electric energy for domestic, commercial, industrial, agricultural, and governmental purposes. HECO operates on the island of Oahu, and HELCO, a subsidiary of HECO, operates on the island of Hawaii.

B. Background

1. Series 1992 Bonds

Act 89, 1990 Session Laws of Hawaii (Act 89), authorized the department to issue up to $60 million, $40 million, and $19 million of revenue bonds for electric energy projects of HECO, Maui Electric Company, Limited (MECO), and HELCO, respectively, by December 31, 1993, provided that the commission approved the proposed projects to be financed by the revenue bond proceeds and certified that those projects were for the local furnishing of electric energy.

In December 1992, the department issued the fixed rate Series 1992 Bonds in the amount of $60 million, the proceeds of

which were loaned to HECO ($40 million), MECO ($8 million), and HELCO ($12 million). In January 2003, $8 million principal amount of the Series 1992 Bonds that had been loaned to MECO, was called for redemption on March 12, 2003 (with the redemption price to be paid by MECO without participating in a sale of refunding revenue bonds).

The remaining Series 1992 Bonds are currently redeemable by the department at the request of HECO in whole or in part on any business day.

By Act 89, the department is authorized to issue (from time to time) refunding revenue bonds to refund bonds issued under Act 89, including the 1992 Bonds.

2. Series 1990C Bonds

Act 277, 1988 Session Laws of Hawaii (Act 277), authorized the department to issue up to $97,410,000, $10,000,000, and $24,000,000 of revenue bonds for electric energy projects of HECO, MECO, and HELCO, respectively, by December 31, 1991, provided that the commission approved the proposed projects to be financed by the revenue bond proceeds and certified that those projects were for the local furnishing of electric energy.

In December 1990, the department issued $55 million of fixed rate Series 1990C Bonds for the benefit of HECO, MECO, and HELCO, with HECO borrowing $25 million ($5 million under Act 277 and $20 million under Act 89), MECO borrowing $20 million (under Act 89), and HELCO borrowing $10 million ($3 million under Act 277 and $7 million under Act 89).

In November 2000, refunding revenue bonds were issued to refinance the portion of the proceeds from the sale of Series 1990C Bonds that had been loaned to HECO ($25 million) and MECO ($20 million), and on December 1, 2000, the proceeds from these refunding revenue bonds were applied to redeem $45 million of the Series 1990C Bonds. The loan to HELCO of its portion of the proceeds from the sale of the Series 1990C Bonds remains outstanding ($10 million).

The remaining Series 1990C Bonds are currently redeemable by the department at the request of HECO in whole on any business day or in part on any interest payment date.

3. Series 1990B Bonds

In July 1990, the department issued the fixed rate Series 1990B Bonds in the amount of $25 million, the proceeds of which were loaned to HECO ($21 million) and HELCO ($4 million).

In November 2000, refunding revenue bonds were issued to refinance the portion of the proceeds from the sale of the Series 1990B Bonds that had been loaned to HECO ($21 million), and on January 1, 2001, the proceeds from these refunding bonds were applied to redeem $21 million of the Series 1990B Bonds. The loan to HELCO of its portion of the proceeds from the sale of the Series 1990B Bonds remains outstanding ($4 million).

The remaining Series 1990B Bonds are currently redeemable by the department at the request of HECO in whole or in part on any business day on any interest payment date.

By Act 277, the department is authorized to issue (from time to time) refunding revenue bonds to refund bonds issued under Act 277, including the Series 1990B Bonds.

C. Applicants' Requests

Due to favorable market conditions, Applicants request commission approval to participate in one or more sales by the department to refund special purpose revenue bonds in an aggregate principal amount of up to $66 million. Applicants intend to use the proceeds to redeem the following bonds (collectively refinancings):

1. The remaining Series 1992 Bonds (interest rate of 6.55 per cent) of which $52 million is outstanding, representing HECO's borrowings of $40 million and HELCO's borrowings of $12 million.[1]

2. The remaining Series 1990C Bonds (interest rate of 7.375 per cent) of which $10 million is outstanding, representing HELCO's borrowings.

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[1]Applicants note that in HECO's, MECO's, and HELCO's letter to the commission dated October 10, 2000 (in Docket No. 00-120), HELCO did not participate with HECO and MECO in the November 2000 sale of refunding bonds. Applicants state that at the time of that sale, it appeared beneficial for HELCO to retain the flexibility to use funds from a possible sale/leaseback transaction for Keahole CT-4 and CT-5 to retire bonds and reduce its capitalization. Applicants further state that it now appears unlikely that a sale/leaseback transaction will be entered into, and interest rates are even more favorable now than they were in November 2000.

3. The remaining Series 1990B Bonds (interest rate of 7.6 per cent) of which $4 million is outstanding, representing HELCO's borrowings.

Applicants assert that if all of the refinancings are executed, the original debt will be replaced with Refunding Bonds bearing reduced fixed interest rates.

Applicants are requesting the commission's approval for all of the following as it relates to the proceeds from the sale of Refunding Bonds to replace existing higher interest rate debt instruments:

1. For HECO and HELCO to borrow up to $40 million and $26 million, respectively, of the proceeds from one or more sales of the Refunding Bonds by the department.

2. For both or either of the Companies to participate with the department in one or more of the refinancings.

3. For HECO and HELCO to carry out each refinancing either alone or combined in a single offering with (a) another refinancing (or partial refinancing), (b) one or more series of Nonrefunding Bonds, and/or (c) other refunding bonds.

4. For the Refunding Bonds to be sold in one or more series.

5. For HECO and HELCO to enter into one or more loan agreements in order to borrow the Refunding Bonds' proceeds.

6. For HECO and HELCO to issue notes to the department in amounts up to $40 million and $26 million, respectively, in connection with borrowing the proceeds from the sale of the Refunding Bonds.

7. For the Companies to execute and deliver financing documents that are necessary in connection with the proposed refinancings.

8. For HECO to guarantee the obligations of HELCO under the loan agreement(s) and its respective note(s).

9. To purchase bond insurance for the Refunding Bonds if it results in net savings over the sale of Refunding Bonds without bond insurance.

10. To enter into one or more negative covenant agreements, if bond insurance is purchased and one or more negative covenants are required in order to obtain bond insurance.

11. To waive the requirements of HAR §§ 6-61-101(b)(1), (b)(5), (b)(6), and (b)(7).

D. Benefits of Revenue Bond Financing

If it remains economically desirable, the Applicants wish to participate, in their discretion, in one or more of the refinancings, with the proceeds, together with any other funds that might be required from the Companies, to be used (as applicable) to redeem (in whole or in part from time to time) the remaining Series 1992 Bonds, the remaining Series 1990C Bonds, and/or the remaining Series 1990B Bonds (collectively, Original Bonds).

Applicants estimate that if the Original Bonds were replaced currently with Refunding Bonds, bearing a fixed rate of

5.25 per cent (with the purchase of insurance), there would be a net annual savings of approximately $660,000, or about $12.6 million in total savings over the lives of the Refunding Bonds.[2]

III.

A. Approval of Parameters for Refunding Bonds and Notes

Applicants request that we approve the following parameters within which the Refunding Bonds and the relates notes may be issued:

1. Each series of Refunding Bonds shall include in its designation the year of issuance (e.g., 2003) and, if any of HECO, HELCO, and/or MECO anticipate issuing more than one series of special purpose revenue bonds or refunding special purpose revenue bonds in that year, a letter designating the particular series (e.g., Refunding Series 2003A).

2. The Refunding Bonds will have a maximum aggregate principal amount of up to $66,000,000, as follows:

   For the Series 1992 refinancing:
   HECO: up to $40,000,000
   HELCO: up to $12,000,000

   For the Series 1990C refinancing:
   HELCO: up to $10,000,000

   For the Series 1990B refinancing:
   HELCO: up to $4,000,000

[2]For purposes of estimating savings, Applicants assumed that the Refunding Bonds will have the same maturity date as the bonds that are being replaced. Based on this assumption, the Refunding Bonds replacing the Original Bonds would have lives of approximately 20 years (Series 1992 Bonds), 18 years (Series 1990C Bonds), and 17 years (Series 1990B Bonds). Goldman Sachs, the lead investment banker for HECO's most recent revenue bond sale, estimated that as of February 14, 2003, insured revenue bonds with maturities ranging from 17 to 30 years could have been sold on behalf of the Companies at rates ranging from approximately 4.9 per cent to 5.25 per cent.

3. The Refunding Bonds will have a maturity date that is not more than 120 per cent of the weighted average reasonably expected economic life of the projects originally financed with the proceeds of the bonds being refunded by such series of Refunding Bonds, calculated in compliance with § 147(b) of the Internal Revenue Code.

4. The fixed interest rate at which the Refunding Bonds will be issued will not exceed:

   For the Series 1992 refinancing: 5.75 per cent per annum

   For the Series 1990C refinancing: 6.50 per cent per annum

   For the Series 1990B refinancing: 6.75 per cent per annum

5. The price of the Refunding Bonds will be not less than 95 per cent of the principal amount of the Refunding Bonds.

6. The underwriting commission will not exceed two per cent of the principal amount of the Refunding Bonds.

7. 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, MECO, 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 Refunding Bonds is issued in connection with the refinancings, including more than one series of Refunding Bonds to effect the redemption of a single series of Original Bonds being redeemed, the redemption provisions may vary as between each series of Refunding Bonds.

8. The covenants governing the Refunding Bonds will be substantially as provided for in other series of revenue bonds or refunding bonds issued for the benefit of HECO, HELCO, and/or MECO.

Upon review of the record, we find that the foregoing terms, conditions, and requests are reasonable and should be approved.

IV.

THE COMMISSION ORDERS:

1. Each of HECO and HELCO, in its discretion, may borrow from the department, or its trustees from time to time, up to a total of $40 million and $ 26 million, respectively, representing the proceeds from one or more sales by the department of the Refunding Bonds authorized by Act 277 and/or Act 89, within parameters set forth herein.

2. Each of HECO and HELCO, in its discretion, may participate in one or more refinancings (including partial refinancings), provided that the terms of the Refunding Bonds fall within the parameters described in part IV of the application.

3. Each of HECO and HELCO, in its discretion, may carry out each refinancing (including partial refinancings) either alone or combined in a single offering with (a) another refinancing (or partial refinancing), (b) one or more series of Nonrefunding Bonds, and/or other refunding bonds.

4. The Refunding Bonds may be sold in one or more series, including one or more series of Refunding Bonds to effect the redemption (in whole or in part, from time to time) of a single series of Original Bonds.

5. Each of HECO and HELCO may enter into one or more loan agreements covering borrowings in connection with the Refunding Bonds (and providing for the payment by Applicants of all underwriting commissions and other expenses of each contemplated financing), in substantially the same form previously used in connection with any previous series of revenue bonds and refunding revenue bonds, with such changes that are necessary or desirable, including changes that may be necessary if it is determined to (a) combine one or more series of Refunding Bonds into a single offering, (b) combine in one offering both Refunding Bonds, Nonrefunding Bonds, and/or other refunding bonds, (c) carry out a partial refinancing, and/or (d) to modify the final terms of any bond insurance arrangements.

6. Each of HECO and HELCO, in its discretion, may issue its respective notes to the department, or its Trustees, in the aggregate amounts of up to $40 million and $26 million, respectively, in connection with the borrowings by the Applicants of the proceeds from the sale (or sales) of the Refunding Bonds by the department (such notes in total to correspond in principal amount, interest rate, maturity, and redemption provisions to the related Refunding Bonds).

7. Each of HECO and HELCO, in its discretion, may execute and deliver any and all financing documents that are necessary or desirable in order to conclude any or all of the proposed refinancings

8. HECO, in its discretion, in connection with the borrowings by HELCO of the proceeds of the Refunding Bonds from the department or its trustees, may guarantee the obligations of HELCO under the loan agreement(s) and its respective note(s).

9. Applicants may purchase bond insurance for one or more series of Refunding Bonds, and may pay the related insurance premiums, if the sale or sales of Refunding 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 or other restrictive provisions (such as the restriction on corporate reorganizations included as a mandatory redemption event for the Series 2002A revenue bonds issued for the benefit of HECO last year).

10. Applicants, in the event any of the Refunding Bonds are insured, may enter into any insurance agreements or other agreements that may be required to obtain such insurance, and may 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 Refunding Bonds on an insured basis.

11. Applicants may execute one or more negative covenant agreements between HECO and the bond insurer in

connection with each series of Refunding 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), HECO and its subsidiaries will not issue first mortgage bonds or other secured debt without equally or ratably securing the bonds to be insured by the bond insurer and other outstanding bonds insured by the bond insurer, with exceptions and limitations which are the same or in substance similar to those included in the negative covenants entered into by HECO in connection with previous series of revenue bonds and refunding revenue bonds.

12. Applicants' request for waiver of the requirements set forth under HAR §§ 6-61-101(b)(1), (b)(5), (b)(6), and (b)(7) is granted. The application filed on February 21, 2003 is complete as filed.

13. Applicants may use the proceeds from the sale (or sales) of Refunding Bonds for the purposes set forth in the application.

14. Applicants are granted such further relief as may be necessary or desirable in order to enable Applicants to carry out any or all of the refinancings as described in the application.

15. Within 60 days of the conclusion of each of the refinancings, Applicants will provide the commission with the following information:

A. A statement of the actual expenses incurred;

B. A copy of the final official statement;

C. A copy of the opinion of bond counsel to the effect that interest on the Refunding Bonds is exempt from federal and Hawaii income taxes under the laws and regulations in effect at the time the refunding revenue bonds are issued (with certain limited exceptions);

D. Copies of all final documents used in the Refunding Bond financing;

E. All information required by HRS § 39A-208(b); and

F. If bond insurance is purchased, a report quantifying the savings achieved by the purchase of such insurance, together with Applicants' statement that the savings achieved by the purchase of such insurance outweighs the restrictions of any negative covenant required by the insurance, taking into account any costs associated with such purchase.

DONE at Honolulu, Hawaii this 14th day of April, 2003.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By _____
Wayne H. Kimura, Chairman

By _____
Janet E. Kawelo, Commissioner

APPROVED AS TO FORM:

By (RECUSED)
Gregg J. Kinkley, Commissioner

_____
Catherine P. Awakuni
Commission Counsel

03-0045.eh

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 20120 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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DATED: April 14, 2003