

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application of)  
MAUI ELECTRIC COMPANY, LIMITED )  
For Approval of Rate Increases and )  
Revised Rate Schedules. )  
\_\_\_\_\_ )

DOCKET NO. 2006-0387

INTERIM DECISION AND ORDER NO. 23926

Filed December 21, 2007  
At 1 o'clock P.M.

*for* [Signature]  
Chief Clerk of the Commission

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HONOLULU, HAWAII

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KAREN HIGASHI  
Chief Clerk, Public Utilities  
Commission, State of Hawaii.  
[Signature]

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 )	Interim Decision and
Revised Rate Schedules. )	Order No. <span style="float:right">23926</span>
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INTERIM DECISION AND ORDER

By this Interim Decision and Order, the commission approves MAUI ELECTRIC COMPANY, LIMITED's ("MECO") request to increase its rates to such levels as will produce, in the aggregate, \$13,222,000 in additional revenues, or 3.70%, over revenues at present rates for a normalized 2007 calendar test year ("2007 Test Year"), on an interim basis.

Also, on an interim basis, the commission approves the adoption of a pension tracking mechanism and a post-retirement benefits other than pensions ("OPEB") tracking mechanism as agreed upon by MECO and the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate"),<sup>1</sup> and described herein. Moreover, the commission approves MECO's request to allocate the interim increase in electric revenues, granted herein, in the same equal percentage to all divisions and rate schedules.

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<sup>1</sup>The Consumer Advocate is an ex officio party to this proceeding pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62. MECO and the Consumer Advocate, the sole parties to this proceeding, are hereafter collectively referred to as the "Parties."

I.

Introduction

A.

Application

MECO<sup>2</sup> is a Hawaii company and a public utility as defined by HRS § 269-1. It is engaged in the production, purchase, transmission, distribution, and sale of electricity on the islands of Maui, Molokai, and Lanai in the State of Hawaii. MECO maintains separate rates and tariffs for each island and provides services to each through separate divisions (i.e., Maui Division, Molokai Division, and Lanai Division). Unless specifically noted otherwise, information herein will be provided on a consolidated basis.

On February 23, 2007, MECO filed its application,<sup>3</sup> requesting approval of rate increases and revised rate schedules and rules.<sup>4</sup> Specifically, MECO originally requested commission approval of a general rate increase under HRS § 269-16 of approximately \$18,977,000, or about 5.30%, over revenues at present rates. The requested increase was based on estimated total revenue requirements of approximately \$376,285,000 for the 2007 Test Year (based on September 1, 2006 fuel oil prices and

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<sup>2</sup>MECO was initially organized under the laws of the Territory of Hawaii on or about April 28, 1921.

<sup>3</sup>MECO's Application for Approval of Rate Increases and Revised Rate Schedules and accompanying testimonies, exhibits, and workpapers; Verification, and Certificate of Service, filed on February 23, 2007 (collectively, "Application").

<sup>4</sup>MECO served copies of the Application on the Consumer Advocate and the Mayor of the County of Maui, pursuant to HAR § 6-61-91(a).

an 8.98% rate of return on MECO's average rate base, including a return on common equity of 11.25%).<sup>5</sup> MECO also requested approval to: (1) establish an inclining rate block structure for residential customers; (2) discontinue its Rider EV-R and Rider EV-C; (3) add certain new schedules (TOU-R, TOU-G, TOU-J, and TOU-P); and (4) amend MECO's Rules 7 and 8. On March 16, 2007, the Consumer Advocate filed its Statement of Position Regarding Completeness of Application stating that it does not object to the completeness of MECO's Application.

In accordance with HRS §§ 1-28.5 and 269-16(c), the commission published its Notice of Public Hearings ("Notice") in various newspapers statewide<sup>6</sup> and held public hearings regarding MECO's Application on April 24, 25, and 26, 2007, on the islands of Molokai, Maui, and Lanai, respectively ("Public Hearings").

By Order No. 23370, issued by the commission on April 16, 2007, the commission acknowledged that the filing date of MECO's complete Application is February 23, 2007, and directed the Parties to submit to the commission a proposed stipulated procedural order within thirty days from the date of that order.

The Parties filed the proposed stipulated document on May 24, 2007. However, the Parties' proposed Stipulated Procedural Order (which included a proposed stipulated Schedule of Proceedings) was not timely filed since under Order No. 23370,

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<sup>5</sup>By Order No. 23188, issued on January 11, 2007, the commission approved MECO's request, filed on December 19, 2006, to utilize a 2007 calendar test year in this proceeding.

<sup>6</sup>The Notice was published on April 2, 10, 17 and 24, 2007, in the Garden Island, Hawaii-Tribune Herald, Honolulu Star-Bulletin, The Maui News, and West Hawaii Today.

the deadline for the Parties to file their stipulation was May 18, 2007.<sup>7</sup> Finding that the issuance of a procedural order in this docket would aid in the "just, speedy, and inexpensive determination of [this] proceeding[.]"<sup>8</sup> the commission issued Order No. 23496 on June 19, 2007, approving the Parties' proposed Stipulated Procedural Order to govern the proceedings in this docket, with modifications ("Order No. 23496"). Thereafter, the commission granted the request, filed on August 20, 2007, to amend the stipulated Schedule of Proceedings approved in Order No. 23496, as modified.<sup>9</sup>

Pursuant to the approved Schedule of Proceedings, as amended, the Parties conducted discovery and filed testimonies, exhibits, and workpapers, as necessary and applicable. Additionally, the Parties engaged in settlement discussions as scheduled in an attempt to resolve the issues established in this proceeding.

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<sup>7</sup>The lateness of the filing was acknowledged by MECO in its letter dated May 22, 2007. By letter dated and filed on May 22, 2007, MECO recognized that it did not timely file the proposed Stipulated Procedural Order and informed the commission that it anticipates executing the document no later than June 1, 2007.

<sup>8</sup>See HAR § 6-61-1. The commission noted in Order No. 23370 that HRS § 269-16(d) requires the commission to "make every effort to complete its deliberations and issue its decision as expeditiously as possible and before nine months from the date the public utility filed its completed application[.]" See Order No. 23370 at 3. The requirements of HRS § 269-16(d) were the basis for the commission's directive to the Parties to submit their proposed stipulated procedural order with thirty days of the issuance of Order No. 23370.

<sup>9</sup>See Commission letter dated August 24, 2007.

On November 19, 2007, MECO filed a letter informing the commission that the Parties had reached verbal settlement of all revenue requirement issues in this docket and requested that the commission suspend the remaining procedural steps set forth in the Schedule of Proceedings. The commission granted MECO's request to suspend the remainder of the procedural steps contained in the Schedule of Proceedings, provided that the deadlines for the filing of the Parties' Joint Settlement Letter (December 3, 2007) and MECO's Statement of Probable Entitlement (December 14, 2007) were excluded from the suspension.<sup>10</sup> By letter dated and filed on December 3, 2007, MECO requested an extension of time, from Monday, December 3, 2007, until Friday, December 7, 2007, to file the Parties' Joint Settlement Letter. The commission granted MECO's extension request.<sup>11</sup>

On December 7, 2007, a stipulated letter describing the agreements reached between the Parties ("Stipulated Settlement Letter") was filed with the commission. Moreover, on the same day, MECO filed its Statement of Probable Entitlement, which along with the Parties' Stipulated Settlement Letter, are described in more detail below.

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<sup>10</sup>See Commission letter dated November 30, 2007.

<sup>11</sup>See Commission letter dated December 7, 2007.

B.

Stipulated Settlement Letter

In the Stipulated Settlement Letter, the Parties documented their agreements on all issues impacting revenue requirements. The Parties agreed to address cost of service/rate design issues separately and stated their intent to later submit a document covering these areas which do not affect the revenue requirements.<sup>12</sup> The Parties also agreed to adopt a pension tracking mechanism and an OPEB tracking mechanism, which are discussed below.

Initially, MECO proposed pension and OPEB tracking mechanisms in the instant proceeding<sup>13</sup> to update its pension estimates to reflect the settlement reached between Hawaii Electric Light Company, Inc. ("HELCO"), MECO's affiliate, and the Consumer Advocate regarding the implementation of pension and OPEB tracking mechanisms for HELCO in Docket No. 05-0315 (HELCO's 2006 test year rate case, known herein as "HELCO 2006").<sup>14</sup> Additionally, similar mechanisms were agreed to by Hawaiian Electric Company, Inc. ("HECO"), MECO's parent, and the Consumer

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<sup>12</sup>See Stipulated Settlement Letter, Exhibit 1 at 51. Subsequently, on December 12, 2007, the Parties filed their "Final Settlement Letter" documenting their agreements on the remaining rate design issues.

<sup>13</sup>See MECO's June 2007 Update to MECO T-9, filed on July 10, 2007.

<sup>14</sup>The commission approved the pension and OPEB tracking mechanisms for HELCO, as proposed in the HELCO 2006 proceeding, on an interim basis. See In re Hawaii Electric Light Company, Inc., Docket No. 05-0315, Interim Decision and Order No. 23342, filed on April 4, 2007, at 1.

Advocate in Docket No. 2006-0386 (HECO's 2007 test year rate case, known herein as "HECO 2007").<sup>15</sup>

Likewise, MECO and the Consumer Advocate have agreed to adopt pension and OPEB tracking mechanisms in this proceeding. In part, based on the unique facts and circumstances of this case, the Consumer Advocate disagreed with MECO's proposal to include pension asset amortization amounting to \$241,800 for the 2007 Test Year revenue requirements. For purposes of settlement, MECO agreed to exclude the amortization of the 2007 Test Year pension assets in this proceeding. Moreover, the Parties agreed that the pension tracking mechanism should reflect a requirement that MECO fund the minimum required level under the law until the existing pension asset balance is eliminated (reduced funding would reduce the pension asset). When the existing pension asset amount is reduced to zero, MECO will fund the net periodic pension costs ("NPPC") as specified in the pension tracking mechanism for MECO. If, however, the existing pension asset amount is not reduced to zero by the time of MECO's next rate case, the Parties agreed to address the funding requirements for the pension tracking mechanism in that proceeding. Moreover, the pension tracking mechanism would require MECO to create a regulatory asset or regulatory liability, as appropriate, for the

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<sup>15</sup>Additionally, the commission approved the pension and OPEB tracking mechanisms for HECO, as proposed in the HECO 2007 proceeding, on an interim basis. See In re Hawaiian Electric Company, Inc., Docket No. 2006-0386, Interim Decision and Order No. 23749, filed on October 22, 2007, at 1.



difference between the amount of NPPC included in rates and actual NPPC recorded by MECO.<sup>16</sup>

The OPEB tracking mechanism mirrors the pension tracking mechanism.<sup>17</sup> According to MECO, the implementation of the OPEB tracking mechanism would not impact the test year revenue requirements in this case.<sup>18</sup> Among other things, the OPEB tracking mechanism would specify the ratemaking treatment which allows financial statement treatment of benefit costs to be smoothed based on the amount of net periodic benefit costs ("NPBC") established in this case and addresses potential situations in the future where contributions to OPEB trusts are not equal to the NPBC recognized.<sup>19</sup>

Aside from the above, the Parties, citing HRS § 91-9(d), agreed to certain procedural matters as a result of their settlement. For instance, the Parties agreed that their settlement eliminated the need for certain remaining procedural steps as set forth in the Schedule of Proceedings.<sup>20</sup>

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<sup>16</sup>Specific terms of the agreed-upon pension tracking mechanism are set forth in Exhibit 1, MECO T-9 Attachment 2 of the Stipulated Settlement Letter.

<sup>17</sup>See MECO T-9, Attachment 2 (June 2007 Update) at 4.

<sup>18</sup>Id.

<sup>19</sup>Specific terms of the agreed-upon OPEB tracking mechanism are set forth in Exhibit 1, MECO T-9 Attachment 3 of the Stipulated Settlement Letter.

<sup>20</sup>These steps include the filing or conducting of, as applicable: (1) the Consumer Advocate's Responses to MECO's Information Requests ("IRs"), (2) MECO's Rebuttal Testimonies, Exhibits, and Workpapers; (3) the Consumer Advocate's Rebuttal IRs to MECO; (4) the Prehearing Conference; (5) MECO's Response to Consumer Advocate's Rebuttal IRs; (6) the Evidentiary Hearing; (7) the Consumer Advocate's Response to the Statement of Probable

Additionally, the Parties: (1) agree that all of the written testimonies (and exhibits, workpapers, updates and responses to IRs related to such testimonies and updates) in this docket may be submitted without the witnesses appearing at an evidentiary hearing; (2) maintain that it is not necessary to have an evidentiary hearing in this docket, and request that the evidentiary hearing be canceled; (3) acknowledge that all identified witnesses are subject to call at the discretion of the commission, and witnesses called by the commission shall be subject to cross-examination upon any testimony provided; and (4) agree to waive their rights to present further evidence on the issues and conduct cross-examination of the witnesses, with certain exceptions<sup>21</sup> (collectively, the "Procedural Agreements").

C.

Statement of Probable Entitlement

On December 7, 2007, MECO filed a Statement of Probable Entitlement that reflects the Parties' agreements as set forth in their Stipulated Settlement Letter. Exhibits 1-4, attached to the Statement of Probable Entitlement, set forth the results of the agreements between the Parties for the 2007 Test Year revenue requirements.

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Entitlement, if any; and (8) Simultaneous Opening and Reply Briefs (collectively, the "Remaining Procedural Steps").

<sup>21</sup>The commission herein incorporates by reference the Parties' exceptions set forth on pages 2 and 3 of the Stipulated Settlement Letter.

The Parties agree that the amount of the interim rate increase to which MECO is probably entitled under HRS § 269-16(d) is \$13,222,000 or 3.70% over revenues at present rates.<sup>22</sup> The Parties' settlement, as set forth in the Stipulated Settlement Letter, reflects the establishment of a pension tracking mechanism and an OPEB tracking mechanism.<sup>23</sup> Additionally, in its statement, MECO proposes to allocate any interim increase in electric revenues in the same equal percentage to all divisions and rate schedules.

D.

MECO's Requests

MECO proposes that the commission grant rate relief in two steps:

1. Interim increase, equal to the increase in rates to which the commission believes MECO is "probably entitled" based on the evidentiary record before it.

2. General increase, a general rate increase when the commission issues its final decision and order to provide for the amount of MECO's total requested revenue increase not included in the interim rate increase.

In its Statement of Probable Entitlement, aside from the approval of interim rates, MECO requests that the commission also approve the adoption of the pension and OPEB tracking

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<sup>22</sup>See Statement of Probable Entitlement at 1. See also Stipulated Settlement Letter at 3.

<sup>23</sup>See Statement of Probable Entitlement at 2-3.

mechanisms, and its proposed allocation of interim rates, described in the section above.

## II.

### Discussion

HRS § 269-16(d) requires that the commission make every effort to complete its deliberations with respect to a public utility's request for a rate increase "as expeditiously as possible and before nine months from the date the public utility filed its completed application." The statute further provides that, if such deliberations are not concluded within the nine-month period, the commission shall render an interim decision within one month after the expiration of the nine-month period. The commission may postpone its interim rate decision an additional thirty days if the commission considers the evidentiary hearing incomplete. The interim decision may allow an increase in rates if the commission believes the public utility is "probably entitled" to such interim rate relief.<sup>24</sup>

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<sup>24</sup>The commission has previously determined:

[O]ur decision in this docket should be consistent with precedent and that computational errors committed by the parties should be accounted for. However, in deciding interim rate relief, the commission's scrutiny of both the record and the discourse during the evidentiary hearings is a search for showings of probable entitlement. This search is necessarily quick, unlike the careful deliberation the commission consistently accords issues in rendering final decisions. In deciding interim rate relief, the commission must often postpone determinations of reasonableness with respect to certain unresolved matters. Otherwise, the speed with which HECO is given interim rate relief would be affected.

MECO filed its Application on February 23, 2007. In Order No. 23496, the commission noted that the Parties' proposed Schedule of Proceedings set forth in its proposed Stipulated Procedural Order included seven deadlines that occurred after the nine-month deadline of November 23, 2007, including the proposed dates for the evidentiary hearing. Accordingly, the commission determined that MECO effectively waived commission action by the nine-month deadline through the submittal of the proposed Stipulated Procedural Order.<sup>25</sup>

The ten-month deadline to issue an interim decision under HRS § 269-16(d) expires on December 23, 2007. This Interim Decision and Order is issued in compliance with HRS § 269-16(d), and addresses the matters related to interim rate relief, and certain procedural matters as warranted.

A.

Results of Operation

For interim relief purposes, the commission will apply the average test year methodology. Attached to this Interim Decision and Order are Exhibits A and B, which provide the estimates of operating revenues and expenses and the average depreciated rate base for the 2007 Test Year for purposes of this Interim Decision and Order.<sup>26</sup> These exhibits reflect the

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Interim Decision and Order No. 11559, filed on March 31, 1992, in Docket No. 6998 at 7.

<sup>25</sup>See Order No. 23496 at 5-6.

<sup>26</sup>Any differences in the commission's numbers and MECO's exhibits are due to the rounding of the figures.

agreements between the Parties regarding the issues impacting revenue requirements. In particular, the Parties have agreed to an increase of \$13,222,000, or 3.70%, over revenues at present rates for the 2007 Test Year.

The final rate of return on common equity to be adopted in this rate case will require further analysis. For purposes of this Interim Decision and Order, the commission accepts a 10.70% return on common equity, for an overall rate of return of 8.67% on the average depreciated rate base of \$382,970,000, all of which were agreed upon by the Parties.<sup>27</sup> Accordingly, the commission concludes that interim rate relief in the amount of \$13,222,000 in additional revenues, or a 3.70% increase over revenues at present rates, is appropriate. Based on the record, it appears that MECO will probably be entitled to the level of relief that the commission grants in this Interim Decision and Order. The interim relief granted meets MECO's need for immediate rate relief and protects the interests of the ratepayers.

In arriving at the interim relief for additional revenues of \$13,222,000, the commission considered the Parties' agreements concerning the components relevant in ratemaking, namely, the test year estimates of operating revenues (at present rates), operating expenses, average depreciated rate base, and rate of return on average rate base. The commission accepts the Parties' agreements for the purposes of this Interim Decision and Order.

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<sup>27</sup>See Stipulated Settlement Letter, Exhibit 1 at 41, 51.

B.

Tracking Mechanisms

The Parties also agreed to a pension tracking mechanism that does not include the amortization of the pension asset as part of the tracking mechanism in this proceeding. Under the tracking mechanism, MECO would only be required to fund the minimum level required under the law, until the existing pension asset amount is reduced to zero, at which time MECO would fund the NPPC as specified in the pension tracking mechanism. If the existing pension asset amount is not reduced to zero by the next rate case, the funding requirements for the pension tracking mechanism would be addressed in the next rate case. Furthermore, the pension tracking mechanism will require MECO to create a regulatory asset or regulatory liability, as appropriate, for the difference between the amount of NPPC included in rates and actual NPPC recorded by MECO. The Parties also agreed to an OPEB tracking mechanism that mirrors the pension tracking mechanism. The adoption of the OPEB tracking mechanism would not impact the revenue requirements in this case.

For interim purposes, the commission accepts the adoption of the pension and OPEB tracking mechanisms in this docket. This stance is consistent with recent commission decisions involving HELCO and HECO (i.e., the HELCO 2006 and HECO 2007 proceedings).

C.

Interim Rates

For interim purposes, MECO's requests to allocate any interim increase in electric revenues in the same equal percentage to all divisions and rate schedules, appears to be just and reasonable. According to MECO, this form of interim rate design is consistent with the interim rate design that HELCO used for its interim rate increase authorized by the commission in the HELCO 2006 proceeding.<sup>28</sup> Accordingly, the commission accepts as appropriate MECO's request to allocate the interim increase in electric revenues, granted herein, in the same equal percentage to all divisions and rate schedules.

D.

Procedural Matters

HRS § 91-9(d) states that "[a]ny procedure in a contested case may be modified or waived by stipulation of the parties and informal disposition may be made of any contested case by stipulation, agreed settlement, consent order, or default."

Pursuant to the above, the Parties agreed that their settlement, memorialized in the Stipulated Settlement Letter, eliminated the need for the Remaining Procedural Steps. Moreover, in light of their settlement, the Parties stipulated to the Procedural Agreements.

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<sup>28</sup>See MECO's Statement of Probable Entitlement at 2.



Upon review, the commission finds that the elimination of the Remaining Procedural Steps, as agreed to by the Parties, is appropriate, at this time. Additionally, at this juncture, the Parties' Procedural Agreements as described in Section I.B, above, appear to be practical and logical.

Accordingly, the commission finds it reasonable to accept the Parties' agreement to eliminate the Remaining Procedural Steps and approve the Parties' Procedural Agreements; provided that the commission may revisit its decision regarding the procedural matters herein, if the commission determines that during the course of its review of the record additional procedural steps are warranted. Regardless of the above, however, during the course of its review of the docket, the commission may issue IRs regarding the record established in this docket (i.e., the Parties' stipulation, written testimonies, exhibits, workpapers, and updates, and IR responses, among other materials), as appropriate and warranted, to facilitate its review.

Based on the above, the commission concludes that the Parties' agreement to eliminate the Remaining Procedural Steps and their Procedural Agreements should be approved, subject to the conditions described above.

E.

Refund

The commission emphasizes that the findings and adoption of the various amounts reflected in Exhibits A and B are

for the purpose of this Interim Decision and Order only. Where the Parties agreed, the commission accepted such agreement for the purposes of this Interim Decision and Order. This does not, in any way, commit the commission to accepting any of these amounts in its final decision. The commission notes that all of its decisions and rulings in this regard are subject to more detailed review and analysis. The commission's final decision will reflect this review and analysis of all estimates and proposals by the Parties.

As such, MECO will be required to refund to its customers any excess collected under this Interim Decision and Order, together with such interest as provided for by HRS § 269-16(d), if the final increase approved by the commission is less than the total interim increase granted by this Interim Decision and Order.

### III.

#### Ultimate Findings of Fact and Conclusions of Law

The commission makes the following findings of fact and conclusions of law.

1. HRS § 269-16(d) mandates that the commission make every effort to complete its deliberations and issue a final decision in public utility rate cases within nine months after a completed application has been filed by a utility. If such deliberations are not concluded within the nine-month period, the commission is required to render an interim decision within one month after the expiration of the nine-month period. The interim

decision may be postponed an additional thirty days if the commission considers the evidentiary hearing incomplete.

2. The ten-month period for the issuance of an interim rate decision in this docket expires on December 23, 2007. In this case, the requested interim increase is based solely on the amount stipulated to by the Parties for purposes of interim relief. The Parties have agreed that an evidentiary hearing is unnecessary.<sup>29</sup> This Interim Decision and Order is issued in compliance with HRS § 269-16(d).

3. Pursuant to HRS § 269-16(d), the commission may grant an interim increase, subject to refund and interest, pending a final decision, if the commission believes that the public utility is probably entitled to an increase in its rates.

4. Based on the evidentiary record before the commission and the Stipulated Settlement Letter, MECO is probably entitled to an increase in its rates.

5. Without interim relief, MECO may be denied an opportunity to earn a fair return on its rate base.

6. For interim relief purposes, pending a final decision in this docket, it is appropriate and reasonable to adopt an average depreciated rate base of \$382,970,000, a rate of return on the rate base of 8.67%, and 2007 Test Year results of operations, as set forth in Exhibit A, which is attached to this Interim Decision and Order.

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<sup>29</sup>See Stipulated Settlement Letter at 9.

7. An interim increase in revenues of \$13,222,000, or an increase of 3.70% over revenues at present rates, is just and reasonable.

8. Interim commission approval of the adoption of the pension and OPEB tracking mechanisms, as agreed upon by the Parties, is just and reasonable.

9. MECO's allocation of the interim increase in electric revenues, granted herein, in the same equal percentage to all divisions and rate schedules, is just and reasonable.

#### IV.

##### Orders

###### THE COMMISSION ORDERS:

1. MECO may increase its rates, on an interim basis, to such levels as will produce, in the aggregate, \$13,222,000, in additional revenues for the 2007 Test Year (3.70% more than at present rates).

2. MECO may adopt the pension and OPEB tracking mechanisms as agreed to by the Parties, on an interim basis.

3. MECO may allocate the interim increase in electric revenues, granted herein, in the same equal percentage to all divisions and rate schedules.

4. As soon as is reasonably practicable, MECO shall submit revised schedules of rates and charges, as applicable and appropriate, reflecting the increase in rates allowed by this Interim Decision and Order, and serve a copy of the same upon the Consumer Advocate.

5. Upon issuance of the final Decision and Order in this proceeding, any amount collected pursuant to this interim rate increase that is in excess of the increase determined by the final decision and order to be just and reasonable shall be refunded to MECO's ratepayers, together with interest as provided by HRS § 269-16(d).

6. The Parties' agreement to eliminate the Remaining Procedural Steps and their Procedural Agreements is approved, subject to the conditions described in Section II.D of this Interim Decision and Order.

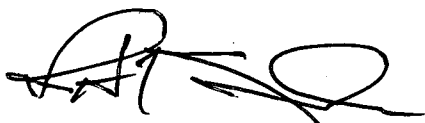
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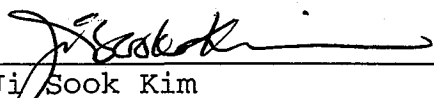
PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

By   
Carlito P. Caliboso, Chairman

By:   
John E. Cole, Commissioner

APPROVED AS TO FORM:

By:   
Leslie H. Kondo, Commissioner

  
Ji Sook Kim  
Commission Counsel  
06-0387.ac

**MAUI ELECTRIC COMPANY, LIMITED**  
**MECO CONSOLIDATED**  
**RESULTS OF OPERATION**  
**2007**  
**(\$ IN 000'S)**

	<u>PRESENT RATES</u>	<u>ADDITIONAL AMOUNT</u>	<u>INTERIM RATES</u>
<b>Operating Revenues</b>			
Electric Sales	355,772	13,003	368,775
Other	1,535	219	1,754
<b>Total Operating Revenues</b>	<u>357,307</u>	<u>13,222</u>	<u>370,529</u>
<b>Operating Expenses</b>			
<b>Operations and Maintenance</b>			
Fuel	180,465	-	180,465
Purchased Power	33,982	-	33,982
Production	20,848	-	20,848
Transmission	2,093	-	2,093
Distribution	5,915	-	5,915
Customer Accounts	3,017	-	3,017
Allowance for Uncollectibles	214	8	222
Customer Service	1,316	-	1,316
Administrative and General	13,306	-	13,306
<b>Total Operations and Maintenance</b>	<u>261,156</u>	<u>8</u>	<u>261,164</u>
Depreciation and Amortization	28,012	-	28,012
Amortization of State ITC	(518)	-	(518)
Taxes, Other Than Income Taxes	33,008	1,169	34,177
Interest on Customer Deposits	221	-	221
Income Taxes	9,585	4,687	14,272
<b>Total Operating Expenses</b>	<u>331,464</u>	<u>5,864</u>	<u>337,328</u>
<b>Net Operating Income</b>	<u>25,843</u>	<u>7,358</u>	<u>33,201</u>
<b>Average Depreciated Rate Base</b>	<u>383,124</u>	<u>(154)</u>	<u>382,970</u>
<b>Rate of Return</b>	<u>6.75%</u>		<u>8.67%</u>

**MAUI ELECTRIC COMPANY, LTD.  
CONSOLIDATED  
2007 INCOME TAX EXPENSE  
(\$ IN 000'S)**

	<u>PRESENT RATES</u>	<u>ADDITIONAL AMOUNT</u>	<u>INTERIM RATES</u>
<b>Operating Revenues</b>	<u>357,307</u>	<u>13,222</u>	<u>370,529</u>
<b>Operating Expenses</b>			
Fuel Oil and Purchased Power	214,447	-	214,447
Other Operation and Maintenance Expense	46,709	8	46,717
Depreciation	28,012	-	28,012
Taxes Other Than Income Tax	(518)	-	(518)
Interest on Customer Deposits	33,008	1,169	34,177
Other Interest, Net	221	-	221
<b>Total Operating Expenses</b>	<u>321,879</u>	<u>1,177</u>	<u>323,056</u>
<b>Operating Income Before Income Taxes</b>	<u>35,428</u>	<u>12,045</u>	<u>47,473</u>
<b>Taxes Adjustments</b>			
Interest Expense	(9,871)	-	(9,871)
Meals and Entertainment	31	-	31
<b>Total Tax Adjustments</b>	<u>(9,840)</u>	<u>-</u>	<u>(9,840)</u>
<b>Taxable Income</b>	<u>25,588</u>	<u>12,045</u>	<u>37,633</u>
<b>Income Tax</b>			
Tax Rate 38.9098%	9,956	4,687	14,643
<b>Tax Benefit of domestic Production Activities Deductions</b>	371		371
<b>Total Income Tax Expense</b>	<u>9,585</u>	<u>4,687</u>	<u>14,272</u>

**MAUI ELECTRIC COMPANY, LIMITED  
CONSOLIDATED  
TAXES OTHER THAN INCOME TAXES  
(\$ IN 000'S)**

	<u>%</u>	<u>PRESENT RATES</u>	<u>ADJUSTMENT</u>	<u>INTERIM RATES</u>
<b>Electric Sales Revenue</b>		355,772	13,003	368,775
<b>Other Operating Revenue</b>		1,535	219	1,754
<b>Operating Revenues</b>		<u>357,307</u>	<u>13,222</u>	<u>370,529</u>
<b>Public Service Tax</b>	5.885%	21,014	778	21,792
<b>PUC Fees</b>	0.500%	1,785	66	1,851
<b>Franchise Tax</b>	2.500%	8,890	325	9,215
<b>Payroll Tax</b>		1,319	-	1,319
<b>TOTAL TAXES OTHER THAN INCOME TAX</b>		<u>33,008</u>	<u>1,169</u>	<u>34,177</u>



MAUI ELECTRIC COMPANY, LTD.  
 CONSOLIDATED  
 2007 AVERAGE RATE BASE  
 (\$ IN 000'S)

	12/31/2006 Beginning Balance	12/31/2007 End of Year Balance	2007 Average Balance
<b>Investments in Assets Serving Customers</b>			
Net Cost of Plant in Service	428,495	436,323	432,409
Property Held for Future Use	2,633	2,633	2,633
Fuel Inventory	15,811	15,811	15,811
Materials and Supplies Inventories	10,755	10,755	10,755
Unamortized Net SFAS 109 Regulatory Asset	9,040	8,878	8,959
Pension Asset	-	-	-
Unamortized OPEB Regulatory Asset	-	-	-
Unamortized System Development Costs	-	-	-
Total Investments in Assets	466,734	474,400	470,567
<b>Funds from Non-Investors</b>			
Unamortized CIAC	52,701	61,560	57,131
Customer Advances	4,845	5,746	5,296
Customer Deposits	3,381	3,979	3,680
Accumulated Deferred Income Taxes	18,868	15,558	17,213
Unamortized ITC	11,167	12,109	11,638
Total Deductions	90,962	98,952	94,957
<b>Difference</b>			375,610
<b>Working Cash at Present Rates</b>			7,514
<b>Average Rate Base at Present Rates</b>			383,124
<b>Change in Rate Base - Working Cash</b>			(154)
<b>Average Rate Base at Interim Rates</b>			382,970

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Interim Decision and Order No. 23926 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

CATHERINE P. AWAKUNI  
EXECUTIVE DIRECTOR  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
DIVISION OF CONSUMER ADVOCACY  
P.O. Box 541  
Honolulu, HI 96809

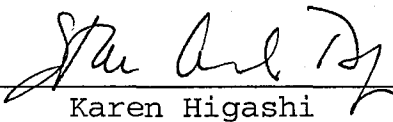
EDWARD L. REINHARDT  
PRESIDENT  
MAUI ELECTRIC COMPANY, LIMITED  
P.O. Box 398  
Kahului, HI 96733-6898

DEAN K. MATSUURA  
DIRECTOR  
REGULATORY AFFAIRS  
HAWAIIAN ELECTRIC COMPANY, INC.  
P.O. Box 2750  
Honolulu, HI 96840-0001

PETER Y. KIKUTA, ESQ.  
GOODSILL ANDERSON QUINN & STIFEL  
1800 Alii Place  
1099 Alakea Street  
Honolulu, HI 96813

Counsel for MAUI ELECTRIC COMPANY, LIMITED

DATED: DEC 21 2007

*for*   
\_\_\_\_\_  
Karen Higashi