Hawaiian Electric Company, Inc. • PO Box 2750 • Honolulu, HI 96840-0001

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PUBLIC UTILITIES COMMISSION

The Honorable Chairman and Members
of the Hawaii Public Utilities Commission
Kekuanaoa Building, First Floor
465 South King Street
Honolulu, Hawaii 96813

Dear Commissioners:

Subject: Docket No. 2008-0083 – Hawaiian Electric 2009 Test Year Rate Case
Hawaiian Electric Hearing Exhibits for Panel 13

Hawaiian Electric Company, Inc. ("Hawaiian Electric") hereby submits the enclosed hearing exhibits:

Hearing Exhibit 7 – Update of Dr. Roger A. Morin, Rate of Return on Common Equity;
Hearing Exhibit 8 – Updated Composite Embedded Cost of Capital, Test Year 2009 Average.

Very truly yours,

Enclosures

cc: Division of Consumer Advocacy
Michael L. Brosch, Utilitech, Inc.
Joseph A. Herz, Sawvel & Associates, Inc.
David Parcell, Technical Associates, Inc.
Dr. Kay Davoodi, Department of Defense
James N. McCormick, Department of Defense
Theodore E. Vestal, Department of Defense
Ralph Smith, Larkin & Associates
Stephen Hill, Hill Associates

UPDATE OF DR. ROGER A. MORIN

RATE OF RETURN ON COMMON EQUITY

Q. Dr. Morin, do you have an updated recommendation of the fair and reasonable rate of return on the common equity capital ("ROE") for Hawaiian Electric Company Inc. ("Hawaiian Electric" or the "Company")?

A. Yes, I do.

Q. Please summarize your updated results and recommendation.

A. The results of the updates are summarized in the table below alongside the original results. The average, median, and truncated mean results are 10.7%, 11.0%, and 10.8%, respectively. From these results, I conclude that a ROE in a range of 10.75% - 11.00% is reasonable. In view of the continuing turmoil and uncertainty in capital markets, and in view of the CAPM's understatement of capital costs under current crisis conditions, it would be appropriate to use the upper end of the range, absent the revenue decoupling mechanism ("RDM")/Rider mechanisms. The RDM would include the revenue balancing account ("RBA") and the revenue adjustment mechanism ("RAM") jointly proposed by Hawaiian Electric and the Division of Consumer Advocacy in the decoupling proceeding (Docket No. 2008-0274). If the RDM/Rider mechanisms are approved by the Commission, the Company's risk is reduced, and the cost of common equity capital declines by some 25 basis points. Therefore, in that circumstance it would be reasonable to set the fair and reasonable ROE at the lower end of my recommended range for ratemaking purposes, 10.75%.

The 25 basis points adjustment is based on: 1) utility bond yield spread differentials between A-rated and Baa-rated bonds, 2) observed beta differentials, 3) differential common equity ratio requirements for S&P Business Risk Score, and 4) application of informed judgment.

METHODOLOGY	ROE Original	ROE Updated
CAPM	11.0%	9.4%
Empirical CAPM	11.3%	9.8%
Historical Risk Premium Electric	10.6%	10.9%
Allowed Risk Premium	10.2%	
DCF Vert. Integrated Electric Utilities Value Line Growth	10.5%	11.0%
DCF Vert. Integrated Electric Utilities Zacks Growth	11.9%	11.3%
DCF Electric Utility Index Value Line Growth	11.3%	11.2%
DCF Electric Utility Index Zacks Growth	11.1%	11.4%

Q. Did you make any methodological changes in your DCF analyses?

A. The only minor departure from my original DCF analysis is that for my second group of comparable utilities, I relied on the electric utilities that make up the S&P Utility index instead of the Moody's Utility Index because the latter was discontinued following the acquisition of Moody's by Mergent. For reasons of consistency, the S&P Index is used in my historical risk premium analysis.

Q. Did you make any methodological changes in your historical risk premium analysis of the utility industry?

A. In light of the financial crisis that began after I prepared my direct testimony, I made two changes. First, as explained above, I relied on the S&P Utility Index instead of the

Moody's Index in order to ensure continuity and timeliness of the risk premium data. I note that this change does not alter the results significantly.

Second, given the continuing chaotic state of the capital markets at this time, whereas trends in utility cost of capital are directly reflected in their cost of debt, they are not directly captured by a risk premium estimate tied to government bond yields. Because a utility's cost of capital is determined by its business and financial risks, it is reasonable to surmise that its cost of equity will track its cost of debt more closely than it will track the government bond yield. Therefore, I have performed my historical premium analysis of the utility industry using the A-rated utility bond yield instead of the government bond yield.

I did not implement the allowed risk premium analysis in view of the circularity inherent in this approach.

Q. Dr. Morin, what is your final conclusion regarding Hawaiian Electric's cost of common equity capital?

A. Based on the results of all my analyses, the application of my professional judgment, and the risk circumstances of Hawaiian Electric, it is my opinion that a just and reasonable ROE on Hawaiian Electric's integrated electric utility operations at this time lies in a range of 10.75% - 11.00%. Absent the RDM/Rider mechanisms, a ROE at the upper end of the range is reasonable under current capital market conditions and a ROE at the lower end of the range is reasonable assuming approval of the RDM/Rider mechanisms.