



June 27, 2012

Richard M. Rosenblum  
*President and  
Chief Executive Officer*

Mr. James Wagoner  
P.O. Box 600  
Kula, HI 96790

Dear Mr. Wagoner,

Thank you for your letter postmarked June 7. You ask a very reasonable and common question: Why is the cost of electricity in Hawaii more than three times the national average?

There are a number of reasons, but I'll start with the most significant. The high cost of imported oil used to run our generating units continues to drive up the price of electricity in Hawaii. Fuel costs account for more than 50% of a typical electric bill. Our companies do not mark up or take a profit on fuel. Last year, typical monthly residential electric bills on Maui went up \$30. Of that, \$29 was due to increasing fuel costs. Most of the remaining \$1 was for an increase in the amount to support Hawaii's energy efficiency rebate program. This program is not run by our utilities. It is directed by the PUC, and the funds are collected through electric bills.

The solution is to replace oil with local, renewable energy to the greatest degree possible. This will help stabilize and reduce electric bills. There's a lot to be done to achieve this goal and it won't happen overnight, but we have made progress. Currently, approximately 12% of our energy in Hawaii comes from renewable sources. This clean energy avoids us burning 486,000 barrels of oil annually, which is 4.9% less oil use since the HCEI Energy Agreement was signed in October 2008.

Our goal is for Hawaii to get as much of its energy from clean renewable resources as possible. For the foreseeable future, however, at least some electricity will come from non-renewable sources, so we must also look at ways to reduce the costs of the generation that remains on fossil fuels as we go through this transition. This is why, at the request of Governor Neil Abercrombie and the chair of the Hawaii Public Utilities Commission, we are exploring the use of liquefied natural gas as a cleaner and cheaper alternative to oil as we transition fuel to clean energy.

Finally, you asked about wind turbines. Wind power technology can provide lower cost energy than an oil-fired generating unit. As you point out, wind power does fluctuate and needs to be

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backed up by our oil-fired units. Our conventional power plants often operate at less than 100% power so that they can increase in output when the wind dies or decrease in output when the wind increases. The exact power level at which they operate depends on the amount of intermittent (like wind and solar) power being produced, the total demand on the grid and the combination of power plants operating. This is a pretty difficult juggling act, but one at which we are among the best in the world. With our clean energy strategy, at least some of that backup will eventually be provided by a renewable biofuel or other measures such as a pumped hydro storage system or batteries or customer loads that participate in a demand response program.

I appreciate hearing from our customers and welcome the opportunity to talk about our progress as well as our goals for a clean energy future so I thank you again for your letter.

Sincerely,

A handwritten signature in black ink, appearing to read "David P. Hall". The signature is fluid and cursive, with a large initial "D" and "P".