

CA-IR-678

Ref: HECO responses to CA-IR-251, CA-IR-252 and CA-IR-419 (HEI Billings).

In response to CA-IR-419, HECO stated that it will be updating the 2005 test year forecast of

HEI billings to HECO to reflect more current allocation factors and more current estimates.
Please provide the following:

- a. Please provide HEI 2004 information, comparable to the 167 page response to CA-IR-251, which supports the 2004 amounts input on pages 3 through 6 of the response to CA-IR-419.
- b. In response to CA-IR-252, the Company provided supporting documentation underlying the HEI allocation factors used in HECO's original test year forecast (HECO-1310) as well as the updated factors applied in the HEI update attached to CA-IR-419. Please provide a copy of all workpapers, spreadsheet files and any other supporting documentation used in quantifying the following updated HECO allocation factors set forth on pages 3 through 6 of the response to CA-IR-419, which do not appear to have been provided in the response to CA-IR-252:
 1. ACC 018: 40.9%
 2. PEN 022: 50.0%
 3. STO 0xx: 67.1% (should be 37.1%)
- c. Please provide a copy of all workpapers, spreadsheet files and any other supporting documentation used to quantify each adjustment to the 2004 actual HEI charges to HECO, as set forth on pages 3 through 6 of the response to CA-IR-419 and briefly described in the footnotes thereto.

HECO Response:

- a. The proforma bill for the period 01/01/04 to 12/31/04 based upon 2004 actual data for labor hours and nonlabor dollars and updated allocation factors (which are actually being used in the 2005 billings to subsidiaries) was run specifically for rate case purposes and excludes incentive compensation from the employee labor rates. The amounts reflected on the proforma bill agree to the 2004 amounts reflected on pages 3 through 6 of the response to CA-IR-419. This proforma bill is voluminous and contains confidential employee labor rates. One copy each will be provided to the Consumer Advocate, the Commission and the

Department of Defense under protective order.

- b. 1. See the Company's response to CA-IR-421, item b. where the Company was asked to revise the Gross Payroll allocation factors to exclude bonus and incentive compensation. This resulted in a change to the general allocator (which includes the gross payroll allocation factor) related to HECO from what was originally shown on CA-IR-252 of 40.2% to 40.9% (shown on CA-IR-421, page 4). The 40.9% (revised general allocator) was used to allocate charges for ACC018.
2. See pages 6 and 7 for the calculations supporting the 50.0% allocation used for PEN022.
3. See the Company's response to CA-IR-252, page 41 for the workpaper supporting the allocation factor used for STO011-STO021 of 37.1% as reflected on CA-IR-419, page 5.
- c. The supporting documentation for the footnotes set forth on pages 3 through 6 of the response to CA-IR-419 are as follows:

Footnote 1: The 2005 inflation adjustment of 2.1% was based upon the Blue Chip Economic Indicators Consumer Price Index (CPI) provided in response to CA-IR-253, page 6.

Footnote 2: The 2004 actual was adjusted to exclude the one-time nonrecurring charge of \$7,000 related to the SEC in-house workshop hosted by HEI and attended by HECO participants. See the supporting details of the adjustment in the intercompany bill for the period 01/01/04 to 12/31/04 provided in response to part a. above, Activity code ACC009, direct nonlabor charge shown on page 18, in the ACC section of the intercompany bill.

Footnote 3: The 2004 actual was adjusted to exclude all costs related to providing rate case assistance to HECO. This adjustment was made to simplify the issues related to this

shown on page 53 and shared nonlabor charges of \$110,864.05 shown on pages 54 and 55 in the FIN section of the intercompany bill.

Footnote 8: The 2004 actual was adjusted to exclude the one-time nonrecurring charges of \$6,455.51 related to the code of conduct review. See the supporting details of the adjustment in the intercompany bill for the period 01/01/04 to 12/31/04 provided in response to part a. above, Activity code HUM009, shared nonlabor charges of \$6,455.51 shown on page 62 in the HUM section of the intercompany bill. The 2004 shared labor charges of \$508.01 were not excluded in determining the test year amount because the Company believes that there will be annual updates/reviews of the Code of Conduct.

Footnote 9: The 2004 actual was adjusted to exclude costs related to incentive compensation in order to simplify the issues related to this rate case only. Hence, all charges related to the incentive compensation plans and stock options were removed from the test year estimate. See the supporting details of the adjustment in the intercompany bill for the period 01/01/04 to 12/31/04 provided in response to part a. above, Activity codes HUM011 thru HUM015 on pages 56 - 62.

Footnote 10: A credit adjustment of (\$9,564.84) was made to the 2004 actual internet costs to reflect the current 2005 internet estimate. See page 9 for the supporting workpaper of the 2005 internet costs.

Footnote 11: An adjustment of \$14,071.29 was made to reflect the increase in the annual listing fee (based upon the 2005 actual invoice received from the New York Stock Exchange). See page 10 for the calculation of the adjustment.

Footnote 12: An adjustment of \$10,203.20 was made to reflect a “normalized” year for stock transfer activities due to less hours actually incurred in 2004 due to time spent on Sarbanes-Oxley 404 compliance. See page 11 for the calculation of the adjustment.

Footnote 13: Adjustments were made to the 2004 actual to reflect costs for the implementation of new IRS forms (M-3), return disclosures and more documentation of tax items in order to be in compliance with Sarbanes-Oxley 404. See page 12 for the

supporting workpaper.

Footnote 14: Adjustments were made to include additional time and higher external attestation fees from the Company’s auditor related to Sarbanes-Oxley 404. See page 13 for the supporting workpaper. Employee names were removed from the workpaper because the workpaper contains confidential employee labor rates.

Fujimoto, Debbie

From: Hanta, Phyllis
Sent: Monday, February 14, 2005 2:32 PM
To: Fujimoto, Debbie
Subject: RE: Nonqualified Retirement Plans

Source E

HEI Participant Counts as of 1/1/2004

Plan	Comp.	Active Vested	PartVst	NonVst	Total	Trf Out	LTD	VT	Retired Empl	Benef	Total	Grand Total
Non-Qualified Retirement Plans												
HEI SERP	HECO	1	0	0	1	0	0	0	1	0	1	2
	HEI	1	0	0	1	0	0	0	1	0	1	2
	Total	2	0	0	2	0	0	0	2	0	2	4

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to Protective Order No. _____

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Support for Footnote 10 - Internet

2005 Internet Billing Budget

Last Update: 9/2/04

	2005 Annual Expense	Allocation Factors:			Allocated Amount:		ASB	ICB	
		HEI	HECO	ASB	HEI	HECO		activity code	company code
HEI Only									
Verisign:									
Digital Certificate SSL Kahala Annual Fee	0	100%	0%	0%	0	0	0	NONBIL	NOCHG
Domain Name Annual Fee (various)	200	100%	0%	0%	200	0	0	NONBIL	NOCHG
Comtest:									
Cacheflow Maintenance	4,000	100%	0%	0%	4,000	0	0	NONBIL	NOCHG
SmartFilter Annual Subscription	4,000	100%	0%	0%	4,000	0	0	NONBIL	NOCHG
NetEnforcer Maintenance	1,400	100%	0%	0%	1,400	0	0	NONBIL	NOCHG
Network Associates Sniffer Maintenance	2,100	100%	0%	0%	2,100	0	0	NONBIL	NOCHG
Tumbleweed MMS (aka WorldSecure):									
MMS Server SW Maint	4,160	100%	0%	0%	4,160	0	0	NONBIL	NOCHG
Dell 2650 Server & MS SQL WIN Maint	1,500	100%	0%	0%	1,500	0	0	NONBIL	NOCHG
V-One VPN Server Maint (50 seat)	1,500	100%	0%	0%	1,500	0	0	NONBIL	NOCHG
NetEnterprise:									
Engineering Support	1,500	100%	0%	0%	1,500	0	0	NONBIL	NOCHG
Email backup Svc	1,200	100%	0%	0%	1,200	0	0	NONBIL	NOCHG
Commercial Data Systems Off-Hour Support	2,500	100%	0%	0%	2,500	0	0	NONBIL	NOCHG
Oceanic RoadRunner Connection	1,200	100%	0%	0%	1,200	0	0	NONBIL	NOCHG
	25,260				25,260	0	0		
HEI+HEIPC+HECO+ASB (1)									
Commercial Data Systems:									
Sun Firewall Hardware/SW Maint 7x24 Gold	11,000	68%	32%	0%	7,480	3,520 (a)	0	INT002	ALLOC
2-Sunfire 260R SN:135CO43A, SN:122CO66B6)	0	68%	32%	0%	0	0	0	INT002	ALLOC
Enterprise 250 SN:041H2CA0	0	68%	32%	0%	0	0	0	INT002	ALLOC
Secure Technologies Hawaii Inc (STH):									
Firewall Software Maint (Stonesoft, Checkpoint, ISS)	17,400	68%	32%	0%	11,832	5,568 (a)	0	INT002	ALLOC
Firewall Security Maintenance (include 24 hours T&M)	22,000	68%	32%	0%	14,960	7,040 (a)	0	INT002	ALLOC
	50,400				34,272	16,128	0		
HEI+HECO+ASB									
NetEnterprise:									
2xT1 Internet Circuit & Port Chg (3)	18,450	6.4%	58.6%	35.0%	1,181	10,812 (c)	6,458	INT004	ALLOC
Cisco Router Maintenance (2)	2,000	34%	33%	33%	680	660 (b)	660	INT003	ALLOC
Router Management (2)	3,000	34%	33%	33%	1,020	990 (b)	990	INT003	ALLOC
Sprint:									
2xT1 Internet Circuit & Port Chg (3)	27,000	6.4%	58.6%	35.0%	1,728	15,822 (c)	9,450	INT004	ALLOC
TimeWarner Add'l 6MB Ethernet Internet Bandwidth Install	2,000	6.4%	58.6%	35.0%	128	1,172 (b)	700	INT003	ALLOC
TimeWarner Add'l 6MB Ethernet Internet Bandwidth MRC	24,000	6.4%	58.6%	35.0%	1,536	14,064 (c)	8,400	INT004	ALLOC
Internet Connection Installation Fee (2)	1,000	34%	33%	33%	340	330 (b)	330	INT003	ALLOC
ARIN ASN Maintenance (2)	100	34%	33%	33%	34	33 (b)	33	INT003	ALLOC
	77,550				6,647	43,883	27,021		
HEI+HECO									
FTP Server - Dell 2650 Hdwr/sw Maint (4)	1,000	10%	90%	0%	100	900 (d)	0	INT005	ALLOC
	1,000				100	900	0		
Total Expense	154,210				66,279	60,911	27,021		
Capital Depreciation Expense									
HEI Only									
HEI+HEIPC+HECO+ASB (1)	1,117	68%	32%	0%	760	357 (a)	0	INT002	ALLOC
HEI+HECO+ASB (2)	6,557	34%	33%	33%	2,229	2,164 (b)	2,164	INT003	ALLOC
HEI+HECO (4)	87	10%	90%	0%	9	78 (d)	0	INT005	ALLOC
Total Depreciation	24,534				19,771	2,599	2,164		
TOTAL INTERNET	178,744				86,050	63,510	29,185		
FrontBridge (Bigfish) Email & Virus filtering service (5)									
	900	100%	0%	0%	900	0	0	INT001	ALLOC
TOTAL INTERNET + FRONTBRIDGE	179,644				86,950	63,510	29,185		

- (1) Allocation factors include upgrades and higher security requirements to support HEIPC International communications requirements.
- (2) Fixed allocation costs split equally.
- (3) Allocation based on internet traffic study
- (4) Allocation based on FTP account ratio
- (5) Allocation based on FrontBridge e-mail traffic study

		Estimated 2005 costs
INT002	∑ (a)	16,485
INT003	∑ (b)	5,349
INT004	∑ (c)	40,698
INT005	∑ (d)	978
		<u>63,510</u>

Support for Footnote 11 - Stock Transfer

		<u>Period</u>		<u>Nonlabor chg</u>	<u>Allocation Factor</u>	<u>HECO Charge</u>	
STO019	Vendor: NYSE	2005	(a)	\$ 77,075.00	37.1%	\$28,594.83	Revised estimate based upon actual 2005 invoice
STO019	Vendor: NYSE	2/29/04	(b)	\$ 39,147.00	37.1%	\$14,523.54	2004 actual (see page 34 of the STO interco. bill)
	Increase in NYSE listing fees		(a) - (b)	<u>\$37,928.00</u>		<u>\$14,071.29</u>	Adjustment required

Support for Footnote 12 - Stock Transfer

Per HECO-1310, page 3

2003 STO direct labor hours 109.70

109.70

8,765.20

Per response to question b. of CA-IR-251

2004 STO shared hours 8,465.65

2004 STO direct labor hours 87.00

8,552.65

Less hours incurred in 2004 than in 2003 due to time normally spent on stock transfer activities spent on SOX 404 work (will need to catch-up on backlog of work in 2005).

Difference

212.55

Say approximately 200 hours to be incurred in a "normal" year

	Addl Hours 2005	12/31/04 Labor Rate	2005 Addl Charges	Comments
STO019 Stock transfer division exp	200	51.016	10,203.20	Ave 12/31/04 labor rate for all Shareholder Svcs employees

The 2004 actual was adjusted to reflect additional billable hours related to stock transfer activities.

Support for Footnote 13 - Taxes

	Estimated	Actual	(a)	(b)	(a) x (b)
	Hours	Hours	Addl Hours	12/31/04	2005
	2005	2004	2005	Labor	Addl
				Rate	Charges
TAX001 Tax return preparation	900	517.68	382.32	53.62	20,500.00
TAX002 Tax return review	200	137.50	62.50	107.845	6,740.31
TAX006 Tax research	350	179.01	170.99	89.77	15,349.77
TAX007 Tax accrual review	500	263.50	236.50	89.77	21,230.61
TAX009 Assist on IRS exam	500	338.43	161.57	89.77	14,504.14
TAX019 Taxes-Sarbanes Oxley Related Charges	100	240.00	-140.00	81.8225	(11,455.15)
TAX020 Tax Depreciation	150	336.50	-186.50	53.62	(10,000.13)

The increased hours are for the implementation of new IRS forms (M-3), return disclosures and more documentation of tax items to be in compliance with Sarbanes-Oxley Section 404.

Support for Footnote 14
Estimated 2005 SOX Charges

ICB activity code	RPT098	INV022	PEN010	STO021	TAX019
	Fin Rptng	Investor Relations	Pension	Stock Transfer	Taxes
Total estimated 2005 SOX hours:	310.34	104.50	82.98	256.25	270.83
12/04 loaded labor rate for employees (averaged)	\$ 59.66	\$ 59.66	\$ 59.66	\$ 59.66	\$ 59.66
Estimated 2005 SOX charges	\$ 18,514.88	\$ 6,234.47	\$ 4,950.59	\$ 15,287.88	\$ 16,157.72
2005 allocation factors	40.0%	39.7%	66.9%	37.1%	33.0%
HECO's allocated charges	\$ 7,405.95	\$ 2,475.08	\$ 3,311.94	\$ 5,671.80	\$ 5,332.05
Auditor's attestation charges:					

2004 actual auditor attestation fees	195,000.00
General excise tax	8,124.87
	<u>203,124.87</u>
2005 allocation factor to HECO	40.0%
HECO's allocated charges for auditor's attestation fees	\$ 81,249.95
	\$ 88,655.90
Less: 2004 actual charges	(54,582.99)
	<u>\$ 34,072.91</u>

Due to the voluminous and confidential nature of the information, one copy (page 8 and pages 14-188) will be provided to the Consumer Advocate, the Public Utilities Commission and the Department of Defense under protective order and under separate transmittal.