HAWAIIAN ELECTRIC INDUSTRIES INC
Form 10-Q
August 04, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Exact Name of Registrant as Specified in Its Charter	Commission File Number	I.R.S. Employer Identification No.
HAWAIIAN ELECTRIC INDUSTRIES, INC.	1-8503	99-0208097
and Principal Subsidiary		
HAWAIIAN ELECTRIC COMPANY, INC.	1-4955	99-0040500

State of Hawaii
(State or other jurisdiction of incorporation or organization)

Hawaiian Electric Industries, Inc. – 1001 Bishop Street, Suite 2900, Honolulu, Hawaii 96813
Hawaiian Electric Company, Inc. – 900 Richards Street, Honolulu, Hawaii 96813
(Address of principal executive offices and zip code)

Hawaiian Electric Industries, Inc. – (808) 543-5662
Hawaiian Electric Company, Inc. – (808) 543-7771
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Hawaiian Electric Industries, Inc. Yes x No o Hawaiian Electric Company, Inc. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Hawaiian Electric Industries, Inc. Yes x No o Hawaiian Electric Company, Inc. Yes x No o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Hawaiian Electric Industries, Inc. Yes o No x Hawaiian Electric Company, Inc. Yes o No x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Hawaiian Electric Industries, Inc.	Large accelerated filer x	Hawaiian Electric Company, Inc.	Large accelerated filer o
	Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o		Accelerated filer o Non-accelerated filer x (Do not check if a smaller reporting company) Smaller reporting company o

APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date.

Class of Common Stock	Outstanding July 29, 2016
Hawaiian Electric Industries, Inc. (Without Par Value)	108,195,738 Shares
Hawaiian Electric Company, Inc. ($6-2/3 Par Value)	15,805,327 Shares (not publicly traded)

Hawaiian Electric Industries, Inc. (HEI) is the sole holder of Hawaiian Electric Company, Inc. (Hawaiian Electric) common stock.
This combined Form 10-Q is separately filed by HEI and Hawaiian Electric. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. No registrant makes any representation as to information relating to the other registrant, except that information relating to Hawaiian Electric is also attributed to HEI.

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GLOSSARY OF TERMS

Terms	Definitions
AES Hawaii	AES Hawaii, Inc.
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income/(loss)
ARO	Asset retirement obligation
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of ASB Hawaii, Inc.
ASB Hawaii	ASB Hawaii, Inc. (formerly American Savings Holdings, Inc.), a wholly owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
CIP CT-1	Campbell Industrial Park 110 MW combustion turbine No. 1
CIS	Customer Information System
Company	Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation, Hawaiian Electric Company, Inc. and its subsidiaries (listed under Hawaiian Electric); ASB Hawaii, Inc. and its subsidiary, American Savings Bank, F.S.B.; HEI Properties, Inc. (dissolved in 2015); and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.).
Consumer Advocate	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii
DER	Distributed Energy Resources
D&O	Decision and order
DG	Distributed generation
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOH	Department of Health of the State of Hawaii
DRIP	HEI Dividend Reinvestment and Stock Purchase Plan
DSM	Demand-side management
ECAC	Energy cost adjustment clause
EGU	Electrical generating unit
EIP	2010 Equity and Incentive Plan, as amended and restated
EPA	Environmental Protection Agency — federal
EPS	Earnings per share
ERISA	Employee Retirement Income Security Act of 1974, as amended
EVE	Economic value of equity
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
federal	U.S. Government
FERC	Federal Energy Regulatory Commission
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
FRB	Federal Reserve Board
GAAP	Accounting principles generally accepted in the United States of America
GHG	Greenhouse gas

GLOSSARY OF TERMS, continued

Terms	Definitions
GNMA	Government National Mortgage Association
Hawaii Electric Light	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
Hawaiian Electric	Hawaiian Electric Company, Inc., an electric utility subsidiary of Hawaiian Electric Industries, Inc. and parent company of Hawaii Electric Light Company, Inc., Maui Electric Company, Limited, HECO Capital Trust III (unconsolidated financing subsidiary), Renewable Hawaii, Inc. and Uluwehiokama Biofuels Corp.
HIE	Hawaii Independent Energy, LLC
HEI	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., ASB Hawaii, Inc., HEI Properties, Inc. (dissolved in 2015) and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.)
HEIRSP	Hawaiian Electric Industries Retirement Savings Plan
HELOC	Home equity line of credit
Hpower	City and County of Honolulu with respect to a power purchase agreement for a refuse-fired plant
IPP	Independent power producer
Kalaeloa	Kalaeloa Partners, L.P.
KWH	Kilowatthour/s (as applicable)
LNG	Liquefied natural gas
LTIP	Long-term incentive plan
MATS	Mercury and Air Toxics Standards
Maui Electric	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
Merger	As provided in the Merger Agreement, merger of Merger Sub I with and into HEI, with HEI surviving, and then merger of HEI with and into Merger Sub II, with Merger Sub II surviving as a wholly owned subsidiary of NEE
Merger Agreement	Agreement and Plan of Merger by and among HEI, NEE, Merger Sub II and Merger Sub I, dated December 3, 2014
Merger Sub I	NEE Acquisition Sub II, Inc., a Delaware corporation and a wholly owned subsidiary of NEE
Merger Sub II	NEE Acquisition Sub I, LLC, a Delaware limited liability company and a wholly owned subsidiary of NEE
MW	Megawatt/s (as applicable)
NEE	NextEra Energy, Inc.
NEM	Net energy metering
NII	Net interest income
O&M	Other operation and maintenance
OCC	Office of the Comptroller of the Currency
OPEB	Postretirement benefits other than pensions
PPA	Power purchase agreement
PPAC	Purchased power adjustment clause
PSIPs	Power Supply Improvement Plans
PUC	Public Utilities Commission of the State of Hawaii
PV	Photovaltaic
RAM	Rate adjustment mechanism
RBA	Revenue balancing account
RFP	Request for proposals
ROACE	Return on average common equity
RORB	Return on rate base
RPS	Renewable portfolio standards
SAR	Stock appreciation right

SEC	Securities and Exchange Commission
See	Means the referenced material is incorporated by reference
Spin-Off	The distribution to HEI shareholders of all of the common stock of ASB Hawaii immediately prior to the Merger
TDR	Troubled debt restructuring
Trust III	HECO Capital Trust III
Utilities	Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited
VIE	Variable interest entity

FORWARD-LOOKING STATEMENTS

This report and other presentations made by Hawaiian Electric Industries, Inc. (HEI) and Hawaiian Electric Company, Inc. (Hawaiian Electric) and their subsidiaries contain “forward-looking statements,” which include statements that are predictive in nature, depend upon or refer to future events or conditions and usually include words such as “will,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “predicts,” “estimates” or similar expressions. In additi statements concerning future financial performance, ongoing business strategies or prospects or possible future actions are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and the accuracy of assumptions concerning HEI and its subsidiaries (collectively, the Company), the performance of the industries in which they do business and economic and market factors, among other things. These forward-looking statements are not guarantees of future performance. Risks, uncertainties and other important factors that could cause actual results to differ materially from those described in forward-looking statements and from historical results include, but are not limited to, the following:

- international, national and local economic conditions, including the state of the Hawaii tourism, defense and construction industries, the strength or weakness of the Hawaii and continental U.S. real estate markets (including the fair value and/or the actual performance of collateral underlying loans held by ASB, which could result in higher loan loss provisions and write-offs), decisions concerning the extent of the presence of the federal government and military in Hawaii, the implications and potential impacts of U.S. and foreign capital and credit market conditions and federal, state and international responses to those conditions, and the potential impacts of global developments (including global economic conditions and uncertainties, the effects of the United Kingdom’s referendum to withdraw from the European Union, unrest, the conflict in Syria, terrorist acts by ISIS or others, potential conflict or crisis with North Korea and potential pandemics);
- the effects of future actions or inaction of the U.S. government or related agencies, including those related to the U.S. debt ceiling and monetary policy;
- weather and natural disasters (e.g., hurricanes, earthquakes, tsunamis, lightning strikes, lava flows and the potential effects of climate change, such as more severe storms and rising sea levels), including their impact on the Company's and Utilities' operations and the economy;
- the timing and extent of changes in interest rates and the shape of the yield curve;
- the ability of the Company and the Utilities to access the credit and capital markets (e.g., to obtain commercial paper and other short-term and long-term debt financing, including lines of credit, and, in the case of HEI, to issue common stock) under volatile and challenging market conditions, and the cost of such financings, if available;
- the risks inherent in changes in the value of the Company’s pension and other retirement plan assets and ASB’s securities available for sale;
- changes in laws, regulations, market conditions and other factors that result in changes in assumptions used to calculate retirement benefits costs and funding requirements;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and of the rules and regulations that the Dodd-Frank Act requires to be promulgated;
- increasing competition in the banking industry (e.g., increased price competition for deposits, or an outflow of deposits to alternative investments, which may have an adverse impact on ASB’s cost of funds);
- the impacts of the termination of the Merger with NextEra Energy, Inc. (NEE) and the resulting loss of NEE’s resources, expertise and support (e.g., financial and technological), including potentially higher costs and longer lead times to increase levels of renewable energy and to complete projects like Enterprise Resource Planning/Enterprise Asset Management (ERP/ERM) and smart grids, and a higher cost of capital;
- the potential delay by the Public Utilities Commission of the State of Hawaii (PUC) in considering (and potential disapproval of actual or proposed) renewable energy proposals and related costs; reliance by the Utilities on outside parties such as the state, independent power producers (IPPs) and developers; and uncertainties surrounding technologies, solar power, wind power, proposed undersea cables, biofuels, environmental assessments required to meet renewable portfolio standards (RPS) goals and the impacts of implementation of the renewable energy proposals on future costs of electricity;
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the ability of the Utilities to develop, implement and recover the costs of implementing the Utilities' action plans and business model changes proposed and being developed in response to the four orders that the PUC issued in April 2014, in which the PUC: directed the Utilities to develop, among other things, Power Supply Improvement Plans, a Demand Response Portfolio Plan and a Distributed Generation Interconnection Plan; described the PUC's inclinations on the future of Hawaii's electric utilities and the vision, business strategies and regulatory policy changes required to align the Utilities' business model with customer interests and the state's public policy goals; and emphasized the need to "leap ahead" of other states in creating a 21st century generation system and modern transmission and distribution grids;

- capacity and supply constraints or difficulties, especially if generating units (utility-owned or IPP-owned) fail or measures such as demand-side management (DSM), distributed generation (DG), combined heat and power or other firm capacity supply-side resources fall short of achieving their forecasted benefits or are otherwise insufficient to reduce or meet peak demand;
- fuel oil price changes, delivery of adequate fuel by suppliers and the continued availability to the electric utilities of their energy cost adjustment clauses (ECACs);
- the continued availability to the electric utilities or modifications of other cost recovery mechanisms, including the purchased power adjustment clauses (PPACs), rate adjustment mechanisms (RAMs) and pension and postretirement benefits other than pensions (OPEB) tracking mechanisms, and the continued decoupling of revenues from sales to mitigate the effects of declining kilowatthour sales;
- the impact of fuel price volatility on customer satisfaction and political and regulatory support for the Utilities;

- the risks associated with increasing reliance on renewable energy, including the availability and cost of non-fossil fuel supplies for renewable energy generation and the operational impacts of adding intermittent sources of renewable energy to the electric grid;
- the growing risk that energy production from renewable generating resources may be curtailed and the interconnection of additional resources will be constrained as more generating resources are added to the Utilities' electric systems and as customers reduce their energy usage;
- the ability of IPPs to deliver the firm capacity anticipated in their power purchase agreements (PPAs);
- the potential that, as IPP contracts near the end of their terms, there may be less economic incentive for the IPPs to make investments in their units to ensure the availability of their units;
- the ability of the Utilities to negotiate, periodically, favorable agreements for significant resources such as fuel supply contracts and collective bargaining agreements;
- new technological developments that could affect the operations and prospects of the Utilities and ASB or their competitors;
- new technological developments, such as the commercial development of energy storage and microgrids, that could affect the operations of the Utilities;
- cyber security risks and the potential for cyber incidents, including potential incidents at HEI, ASB and the Utilities (including at ASB branches and electric utility plants) and incidents at data processing centers they use, to the extent not prevented by intrusion detection and prevention systems, anti-virus software, firewalls and other general information technology controls;
- federal, state, county and international governmental and regulatory actions, such as existing, new and changes in laws, rules and regulations applicable to HEI, the Utilities and ASB (including changes in taxation, increases in capital requirements, regulatory policy changes, environmental laws and regulations (including resulting compliance costs and risks of fines and penalties and/or liabilities), the regulation of greenhouse gas (GHG) emissions, governmental fees and assessments (such as Federal Deposit Insurance Corporation assessments), and potential carbon “cap and trade” legislation that may fundamentally alter costs to produce electricity and accelerate the move to renewable generation);
- developments in laws, regulations and policies governing protections for historic, archaeological and cultural sites, and plant and animal species and habitats, as well as developments in the implementation and enforcement of such laws, regulations and policies;
- discovery of conditions that may be attributable to historical chemical releases, including any necessary investigation and remediation, and any associated enforcement, litigation or regulatory oversight;
- decisions by the PUC in rate cases and other proceedings (including the risks of delays in the timing of decisions, adverse changes in final decisions from interim decisions and the disallowance of project costs as a result of adverse regulatory audit reports or otherwise);
- decisions by the PUC and by other agencies and courts on land use, environmental and other permitting issues (such as required corrective actions, restrictions and penalties that may arise, such as with respect to environmental conditions or RPS);
- potential enforcement actions by the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board (FRB), the Federal Deposit Insurance Corporation (FDIC) and/or other governmental authorities (such as consent orders, required corrective actions, restrictions and penalties that may arise, for example, with respect to compliance deficiencies under existing or new banking and consumer protection laws and regulations or with respect to capital adequacy);
- the ability of the Utilities to recover increasing costs and earn a reasonable return on capital investments not covered by RAMs;
- the risks associated with the geographic concentration of HEI’s businesses and ASB’s loans, ASB’s concentration in a single product type (i.e., first mortgages) and ASB’s significant credit relationships (i.e., concentrations of large loans and/or credit lines with certain customers);
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changes in accounting principles applicable to HEI, the Utilities and ASB, including the adoption of new U.S. accounting standards, the potential discontinuance of regulatory accounting and the effects of potentially required consolidation of variable interest entities (VIEs) or required capital lease accounting for PPAs with IPPs;

- changes by securities rating agencies in their ratings of the securities of HEI and Hawaiian Electric and the results of financing efforts;
- faster than expected loan prepayments that can cause an acceleration of the amortization of premiums on loans and investments and the impairment of mortgage-servicing assets of ASB;
- changes in ASB's loan portfolio credit profile and asset quality which may increase or decrease the required level of provision for loan losses, allowance for loan losses and charge-offs;
- changes in ASB's deposit cost or mix which may have an adverse impact on ASB's cost of funds;
- the final outcome of tax positions taken by HEI, the Utilities and ASB;
- the risks of suffering losses and incurring liabilities that are uninsured (e.g., damages to the Utilities' transmission and distribution system and losses from business interruption) or underinsured (e.g., losses not covered as a result of insurance deductibles or other exclusions or exceeding policy limits); and
- other risks or uncertainties described elsewhere in this report and in other reports (e.g., "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K) previously and subsequently filed by HEI and/or Hawaiian Electric with the Securities and Exchange Commission (SEC).

Forward-looking statements speak only as of the date of the report, presentation or filing in which they are made. Except to the extent required by the federal securities laws, HEI, Hawaiian Electric, ASB and their subsidiaries undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Hawaiian Electric Industries, Inc. and Subsidiaries
Consolidated Statements of Income (unaudited)

	Three months ended June 30		Six months ended June 30	
(in thousands, except per share amounts)	2016	2015	2016	2015
Revenues				
Electric utility	$495,395	$558,163	$977,447	$1,131,605
Bank	70,749	65,783	139,589	130,131
Other	100	(34)	168	38
Total revenues	566,244	623,912	1,117,204	1,261,774
Expenses				
Electric utility	424,709	492,002	851,435	1,007,808
Bank	50,525	46,057	99,771	89,774
Other	5,555	13,123	11,692	21,956
Total expenses	480,789	551,182	962,898	1,119,538
Operating income (loss)				
Electric utility	70,686	66,161	126,012	123,797
Bank	20,224	19,726	39,818	40,357
Other	(5,455)	(13,157)	(11,524)	(21,918)
Total operating income	85,455	72,730	154,306	142,236
Interest expense, net—other than on deposit liabilities and other bank borrowings	(17,301)	(18,906)	(37,427)	(38,006)
Allowance for borrowed funds used during construction	760	682	1,422	1,181
Allowance for equity funds used during construction	1,997	1,896	3,736	3,309
Income before income taxes	70,911	56,402	122,037	108,720
Income taxes	26,310	20,911	44,611	40,890
Net income	44,601	35,491	77,426	67,830
Preferred stock dividends of subsidiaries	473	473	946	946
Net income for common stock	$44,128	$35,018	$76,480	$66,884
Basic earnings per common share	$0.41	$0.33	$0.71	$0.63
Diluted earnings per common share	$0.41	$0.33	$0.71	$0.63
Dividends per common share	$0.31	$0.31	$0.62	$0.62
Weighted-average number of common shares outstanding	107,962	107,418	107,791	105,361
Net effect of potentially dilutive shares	171	276	187	298
Adjusted weighted-average shares	108,133	107,694	107,978	105,659

The accompanying notes are an integral part of these consolidated financial statements.

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Hawaiian Electric Industries, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (unaudited)

	Three months ended June 30		Six months ended June 30	
(in thousands)	2016	2015	2016	2015
Net income for common stock	$44,128	$35,018	$76,480	$66,884
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on available-for-sale investment securities:				
Net unrealized gains (losses) on available-for-sale investment securities arising during the period, net of (taxes) benefits of ($1,925), $2,439, ($6,830) and $161 for the respective periods	2,916	(3,694)	10,344	(243)
Less: reclassification adjustment for net realized gains included in net income, net of taxes of $238, nil, $238 and nil for the respective periods	(360)	—	(360)	—
Derivatives qualified as cash flow hedges:				
Effective portion of foreign currency hedge net unrealized gains (losses), net of (taxes) benefits of $475, nil, ($163) and nil for the respective periods	(745)	—	257	—
Less: reclassification adjustment to net income, net of tax benefits of nil, $38, $35 and $75 for the respective periods	—	59	54	118
Retirement benefit plans:				
Less: amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $2,362, $3,691, $4,619 and $7,177 for the respective periods	3,698	5,780	7,236	11,239
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $2,166, $3,359, $4,218 and $6,486 for the respective periods	(3,401)	(5,272)	(6,623)	(10,183)
Other comprehensive income (loss), net of taxes	2,108	(3,127)	10,908	931
Comprehensive income attributable to Hawaiian Electric Industries, Inc.	$46,236	$31,891	$87,388	$67,815

The accompanying notes are an integral part of these consolidated financial statements.

Hawaiian Electric Industries, Inc. and Subsidiaries
Consolidated Balance Sheets (unaudited)

(dollars in thousands)	June 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$257,208	$300,478
Accounts receivable and unbilled revenues, net	224,179	242,766
Available-for-sale investment securities, at fair value	894,021	820,648
Stock in Federal Home Loan Bank, at cost	11,218	10,678
Loans receivable held for investment, net	4,699,623	4,565,781
Loans held for sale, at lower of cost or fair value	6,217	4,631
Property, plant and equipment, net of accumulated depreciation of $2,387,013 and $2,339,319 at the respective dates	4,482,990	4,377,658
Regulatory assets	885,114	896,731
Other	436,479	480,457
Goodwill	82,190	82,190
Total assets	$11,979,239	$11,782,018
Liabilities and shareholders' equity		
Liabilities		
Accounts payable	$130,160	$138,523
Interest and dividends payable	23,490	26,042
Deposit liabilities	5,232,203	5,025,254
Short-term borrowings—other than bank	115,985	103,063
Other bank borrowings	272,887	328,582
Long-term debt, net—other than bank	1,578,842	1,578,368
Deferred income taxes	712,199	680,877
Regulatory liabilities	391,003	371,543
Contributions in aid of construction	516,750	506,087
Defined benefit pension and other postretirement benefit plans liability	578,651	589,918
Other	426,594	471,828
Total liabilities	9,978,764	9,820,085
Preferred stock of subsidiaries - not subject to mandatory redemption	34,293	34,293
Commitments and contingencies (Notes 4 and 5)		
Shareholders' equity		
Preferred stock, no par value, authorized 10,000,000 shares; issued: none	—	—
Common stock, no par value, authorized 200,000,000 shares; issued and outstanding: 108,187,063 shares and 107,460,406 shares at the respective dates	1,647,138	1,629,136
Retained earnings	334,398	324,766
Accumulated other comprehensive loss, net of tax benefits	(15,354)	(26,262)
Total shareholders' equity	1,966,182	1,927,640
Total liabilities and shareholders' equity	$11,979,239	$11,782,018

The accompanying notes are an integral part of these consolidated financial statements.

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Hawaiian Electric Industries, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity (unaudited)

	Common stock		Retained	Accumulated other comprehensive	
(in thousands, except per share amounts)	Shares	Amount	Earnings	income (loss)	Total
Balance, December 31, 2015	107,460	$1,629,136	$324,766	$ (26,262)	$1,927,640
Net income for common stock	—	—	76,480	—	76,480
Other comprehensive income, net of taxes	—	—	—	10,908	10,908
Issuance of common stock, net	727	18,002	—	—	18,002
Common stock dividends ($0.62 per share)	—	—	(66,848)	—	(66,848)
Balance, June 30, 2016	108,187	$1,647,138	$334,398	$ (15,354)	$1,966,182
Balance, December 31, 2014	102,565	$1,521,297	$296,654	$ (27,378)	$1,790,573
Net income for common stock	—	—	66,884	—	66,884
Other comprehensive income, net of taxes	—	—	—	931	931
Issuance of common stock, net	4,882	105,272	—	—	105,272
Common stock dividends ($0.62 per share)	—	—	(65,140)	—	(65,140)
Balance, June 30, 2015	107,447	$1,626,569	$298,398	$ (26,447)	$1,898,520

The accompanying notes are an integral part of these consolidated financial statements.

Hawaiian Electric Industries, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)

Six months ended June 30	2016	2015
(in thousands)		
Cash flows from operating activities		
Net income	$77,426	$67,830
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	97,148	91,731
Other amortization	4,840	4,792
Provision for loan losses	9,519	2,439
Loans receivable originated and purchased, held for sale	(98,004)	(168,921)
Proceeds from sale of loans receivable, held for sale	98,457	173,267
Deferred income taxes	21,738	(4,463)
Share-based compensation expense	2,011	3,769
Excess tax benefits from share-based payment arrangements	(383)	(984)
Allowance for equity funds used during construction	(3,736)	(3,309)
Change in cash overdraft	—	193
Other	2,982	1,777
Changes in assets and liabilities		
Decrease in accounts receivable and unbilled revenues, net	12,894	44,489
Decrease (increase) in fuel oil stock	9,644	(2,362)
Increase in regulatory assets	(11,752)	(19,976)
Increase in accounts, interest and dividends payable	20,837	8,504
Change in prepaid and accrued income taxes and utility revenue taxes	622	(4,390)
Increase in defined benefit pension and other postretirement benefit plans liability	95	218
Change in other assets and liabilities	(18,878)	(26,232)
Net cash provided by operating activities	225,460	168,372
Cash flows from investing activities		
Available-for-sale investment securities purchased	(176,598)	(208,110)
Principal repayments on available-for-sale investment securities	102,716	63,568
Proceeds from sale of available-for-sale investment securities	16,423	—
Purchase of stock from Federal Home Loan Bank	(2,773)	—
Redemption of stock from Federal Home Loan Bank	2,233	58,623
Net increase in loans held for investment	(155,930)	(23,206)
Proceeds from sale of commercial loans	14,105	—
Proceeds from sale of real estate acquired in settlement of loans	553	1,258
Capital expenditures	(203,631)	(206,816)
Contributions in aid of construction	16,810	19,089
Other	1,106	3,819
Net cash used in investing activities	(384,986)	(291,775)
Cash flows from financing activities		
Net increase in deposit liabilities	206,949	179,856
Net increase in short-term borrowings with original maturities of three months or less	12,922	5,571
Net increase (decrease) in retail repurchase agreements	(27,158)	13,508
Proceeds from other bank borrowings	55,835	10,000
Repayments of other bank borrowings	(84,369)	—
Proceeds from issuance of long-term debt	75,000	—
Repayment of long-term debt	(75,000)	—
Excess tax benefits from share-based payment arrangements	383	984

Net proceeds from issuance of common stock	7,668	104,469
Common stock dividends	(55,591)	(65,140)
Preferred stock dividends of subsidiaries	(946)	(946)
Other	563	246
Net cash provided by financing activities	116,256	248,548
Net increase (decrease) in cash and cash equivalents	(43,270)	125,145
Cash and cash equivalents, beginning of period	300,478	175,542
Cash and cash equivalents, end of period	$257,208	$300,687

The accompanying notes are an integral part of these consolidated financial statements.

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidated Statements of Income (unaudited)

(in thousands)	Three months ended June 30 2016	2015	Six months ended June 30 2016	2015
Revenues	$495,395	$558,163	$977,447	$1,131,605
Expenses				
Fuel oil	91,899	146,231	205,639	323,037
Purchased power	139,058	149,284	254,917	285,291
Other operation and maintenance	99,563	98,864	203,471	202,866
Depreciation	46,760	44,241	93,541	88,484
Taxes, other than income taxes	47,429	53,382	93,867	108,130
Total expenses	424,709	492,002	851,435	1,007,808
Operating income	70,686	66,161	126,012	123,797
Allowance for equity funds used during construction	1,997	1,896	3,736	3,309
Interest expense and other charges, net	(15,103)	(16,288)	(32,411)	(32,613)
Allowance for borrowed funds used during construction	760	682	1,422	1,181
Income before income taxes	58,340	52,451	98,759	95,674
Income taxes	21,984	19,111	36,537	34,961
Net income	36,356	33,340	62,222	60,713
Preferred stock dividends of subsidiaries	229	229	458	458
Net income attributable to Hawaiian Electric	36,127	33,111	61,764	60,255
Preferred stock dividends of Hawaiian Electric	270	270	540	540
Net income for common stock	$35,857	$32,841	$61,224	$59,715

The accompanying notes are an integral part of these consolidated financial statements.

HEI owns all of the common stock of Hawaiian Electric. Therefore, per share data with respect to shares of common stock of Hawaiian Electric are not meaningful.

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)	Three months ended June 30 2016	2015	Six months ended June 30 2016	2015
Net income for common stock	$35,857	$32,841	$61,224	$59,715
Other comprehensive income (loss), net of taxes:				
Derivatives qualified as cash flow hedges:				
Effective portion of foreign currency hedge net unrealized gains (losses), net of (taxes) benefits of $475, nil, ($163) and nil for the respective periods	(745)	—	257	—
Retirement benefit plans:				
Less: amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $2,160, $3,349, $4,221 and $6,490 for the respective periods	3,391	5,257	6,627	10,190
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $2,166, $3,359, $4,218 and $6,486 for the respective periods	(3,401)	(5,272)	(6,623)	(10,183)
Other comprehensive income (loss), net of taxes	(755)	(15)	261	7
Comprehensive income attributable to Hawaiian Electric Company, Inc.	$35,102	$32,826	$61,485	$59,722

The accompanying notes are an integral part of these consolidated financial statements.

6

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidated Balance Sheets (unaudited)

(dollars in thousands, except par value)	June 30, 2016	December 31, 2015
Assets		
Property, plant and equipment		
Utility property, plant and equipment		
Land	$53,175	$52,792
Plant and equipment	6,411,544	6,315,698
Less accumulated depreciation	(2,314,743)	(2,266,004)
Construction in progress	230,143	175,309
Utility property, plant and equipment, net	4,380,119	4,277,795
Nonutility property, plant and equipment, less accumulated depreciation of $1,230 and $1,229 at respective dates	7,375	7,272
Total property, plant and equipment, net	4,387,494	4,285,067
Current assets		
Cash and cash equivalents	27,579	24,449
Customer accounts receivable, net	116,265	132,778
Accrued unbilled revenues, net	87,724	84,509
Other accounts receivable, net	4,546	10,408
Fuel oil stock, at average cost	61,572	71,216
Materials and supplies, at average cost	56,911	54,429
Prepayments and other	21,879	36,640
Regulatory assets	90,471	72,231
Total current assets	466,947	486,660
Other long-term assets		
Regulatory assets	794,643	824,500
Unamortized debt expense	344	497
Other	72,425	75,486
Total other long-term assets	867,412	900,483
Total assets	$5,721,853	$5,672,210
Capitalization and liabilities		
Capitalization		
Common stock ($6 2/3 par value, authorized 50,000,000 shares; outstanding 15,805,327 shares)	$105,388	$105,388
Premium on capital stock	578,926	578,930
Retained earnings	1,057,506	1,043,082
Accumulated other comprehensive income, net of income taxes	1,186	925
Common stock equity	1,743,006	1,728,325
Cumulative preferred stock — not subject to mandatory redemption	34,293	34,293
Long-term debt, net	1,279,123	1,278,702
Total capitalization	3,056,422	3,041,320
Commitments and contingencies (Note 4)		
Current liabilities		
Short-term borrowings from non-affiliates	36,995	—
Accounts payable	106,521	114,846
Interest and preferred dividends payable	21,309	23,111
Taxes accrued	141,148	191,084
Regulatory liabilities	3,368	2,204

Other	53,347	54,079
Total current liabilities	362,688	385,324
Deferred credits and other liabilities		
Deferred income taxes	689,482	654,806
Regulatory liabilities	387,635	369,339
Unamortized tax credits	89,176	84,214
Defined benefit pension and other postretirement benefit plans liability	541,656	552,974
Other	78,044	78,146
Total deferred credits and other liabilities	1,785,993	1,739,479
Contributions in aid of construction	516,750	506,087
Total capitalization and liabilities	$5,721,853	$5,672,210

The accompanying notes are an integral part of these consolidated financial statements.

7

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidated Statements of Changes in Common Stock Equity (unaudited)

	Common stock		Premium on capital	Retained	Accumulated other comprehensive	
(in thousands)	Shares	Amount	stock	earnings	income (loss)	Total
Balance, December 31, 2015	15,805	$105,388	$578,930	$1,043,082	$ 925	$1,728,325
Net income for common stock	—	—	—	61,224	—	61,224
Other comprehensive income, net of taxes	—	—	—	—	261	261
Common stock dividends	—	—	—	(46,800)	—	(46,800)
Common stock issuance expenses	—	—	(4)	—	—	(4)
Balance, June 30, 2016	15,805	$105,388	$578,926	$1,057,506	$ 1,186	$1,743,006
Balance, December 31, 2014	15,805	$105,388	$578,938	$997,773	$ 45	$1,682,144
Net income for common stock	—	—	—	59,715	—	59,715
Other comprehensive income, net of taxes	—	—	—	—	7	7
Common stock dividends	—	—	—	(45,203)	—	(45,203)
Common stock issuance expenses	—	—	(5)	—	—	(5)
Balance, June 30, 2015	15,805	$105,388	$578,933	$1,012,285	$ 52	$1,696,658

The accompanying notes are an integral part of these consolidated financial statements.

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)

Six months ended June 30	2016	2015
(in thousands)		
Cash flows from operating activities		
Net income	$62,222	$60,713
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	93,541	88,484
Other amortization	3,793	3,220
Deferred income taxes	32,118	33,320
Change in tax credits, net	5,004	4,461
Allowance for equity funds used during construction	(3,736)	(3,309)
Change in cash overdraft	—	193
Other	(2,022)	1,777
Changes in assets and liabilities		
Decrease in accounts receivable	16,682	16,955
Decrease (increase) in accrued unbilled revenues	(3,215)	27,930
Decrease (increase) in fuel oil stock	9,644	(2,362)
Increase in materials and supplies	(2,482)	(105)
Increase in regulatory assets	(677)	(19,976)
Decrease (increase) in accounts payable	23,427	(4,371)
Change in prepaid and accrued income taxes and revenue taxes	(28,192)	(63,613)
Increase in defined benefit pension and other postretirement benefit plans liability	237	221
Change in other assets and liabilities	(12,220)	(15,862)
Net cash provided by operating activities	194,124	127,676
Cash flows from investing activities		
Capital expenditures	(197,332)	(199,143)
Contributions in aid of construction	16,810	19,089
Other	331	511
Net cash used in investing activities	(180,191)	(179,543)
Cash flows from financing activities		
Common stock dividends	(46,800)	(45,203)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(998)	(998)
Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less	36,995	88,993
Other	—	(217)
Net cash provided by (used in) financing activities	(10,803)	42,575
Net increase (decrease) in cash and cash equivalents	3,130	(9,292)
Cash and cash equivalents, beginning of period	24,449	13,762
Cash and cash equivalents, end of period	$27,579	$4,470

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1 · Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for interim financial information, the instructions to SEC Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. The accompanying unaudited consolidated financial statements and the following notes should be read in conjunction with the audited consolidated financial statements and the notes thereto in HEI's and Hawaiian Electric's Form 10-K for the year ended December 31, 2015.

In the opinion of HEI's and Hawaiian Electric's management, the accompanying unaudited consolidated financial statements contain all material adjustments required by GAAP to fairly state consolidated HEI's and Hawaiian Electric's financial positions as of June 30, 2016 and December 31, 2015, the results of their operations for the three and six months ended June 30, 2016 and 2015 and their cash flows for the six months ended June 30, 2016 and 2015. All such adjustments are of a normal recurring nature, unless otherwise disclosed below or in other referenced material. Results of operations for interim periods are not necessarily indicative of results for the full year.

2 · Termination of proposed merger and other matters

On December 3, 2014, HEI, NextEra Energy, Inc., a Florida corporation (NEE), NEE Acquisition Sub I, LLC, a Delaware limited liability company and a wholly owned subsidiary of NEE (Merger Sub II) and NEE Acquisition Sub II, Inc., a Delaware corporation and a wholly owned subsidiary of NEE (Merger Sub I), entered into an Agreement and Plan of Merger (the Merger Agreement). The Merger Agreement provided for Merger Sub I to merge with and into HEI (the Initial Merger), with HEI surviving, and then for HEI to merge with and into Merger Sub II, with Merger Sub II surviving as a wholly owned subsidiary of NEE (the Merger). The Merger Agreement contemplated that, immediately prior to the closing of the Merger, HEI would distribute to its shareholders all of the issued and outstanding shares of common stock of ASB Hawaii, Inc. (ASB Hawaii), the direct parent company of ASB (such distribution referred to as the Spin-Off), with ASB Hawaii becoming a new public company.

The closing of the Merger was subject to various conditions, including, among others, receipt of regulatory approval from the Hawaii Public Utilities Commission (PUC). In January 2015, NEE and Hawaiian Electric filed an application with the PUC requesting approval of the proposed Merger (under which Hawaiian Electric would become a wholly-owned indirect subsidiary of NEE). On July 15, 2016, the PUC dismissed the application without prejudice. On July 16, 2016, pursuant to the terms of the Merger Agreement, NEE provided written notice to HEI indicating that NEE was terminating the Merger Agreement effective immediately. Pursuant to the terms of the Merger Agreement, on July 19, 2016, NEE paid HEI a $90 million termination fee and $5 million for the reimbursement of expenses associated with the transaction. In the third quarter of 2016, HEI will recognize for financial reporting purposes the termination fee and reimbursement of expenses (net of taxes), additional tax benefits of approximately $7.8 million on the previously non-tax-deductible merger- and spin-off-related expenses incurred through June 30, 2016, and merger- and spin-off-related expenses incurred in the third quarter of 2016 (net of tax benefits). The Spin-Off of ASB Hawaii was cancelled as it was cross-conditioned on the merger consummation.

On May 18, 2016, the Utilities filed an application for an LNG supply and transport agreement and LNG-related capital equipment to utilize natural gas at certain designated facilities, and two applications to commit funds for and waive from the PUC's Framework for Competitive Bidding the Kahe Combined Cycle Generating Unit project. The three filings were conditioned on PUC approval of the Utilities' and NextEra Energy's joint application for approval of a merger between the two parties. On July 19, 2016, the Utilities filed withdrawals of these three applications, noting that because the merger application approval condition was not satisfied, the underlying projects would not go forward. On July 21, 2016, the PUC issued orders closing all three dockets.

Litigation. HEI and its subsidiaries are subject to various legal proceedings that arise from time to time. Some of these proceedings may seek relief or damages in amounts that may be substantial. Because these proceedings are complex, many years may pass before they are resolved, and it is not feasible to predict their outcomes. Some of these proceedings involve claims HEI and Hawaiian Electric believe may be covered by insurance, and HEI and Hawaiian Electric have advised their insurance carriers accordingly.

Since the December 3, 2014 announcement of the merger agreement, eight purported class action complaints were filed in the Circuit Court of the First Circuit for the State of Hawaii by alleged stockholders of HEI against HEI, Hawaiian Electric (in one complaint), the individual directors of HEI, NEE and NEE's acquisition subsidiaries. The lawsuits are captioned as follows: Miller v. Hawaiian Electric Industries, Inc., et al., Case No. 14-1-2531-12 KTN (December 15, 2014) (the Miller Action); Walsh v. Hawaiian Electric Industries, Inc., et al., Case No. 14-1-2541-12 JHC (December 15, 2014) (the Walsh Action); Stein v. Hawaiian Electric Industries, Inc., et al., Case No. 14-1-2555-12 KTN (December 17, 2014) (the Stein Action); Brown v. Hawaiian Electric Industries, Inc., et al., Case No. 14-1-2643-12 RAN (December 30, 2014) (the Brown Action); Cohn v. Hawaiian Electric Industries, Inc., et al., Case No. 14-1-2642-12 KTN (December 30, 2014) (the Cohn State Action); Guenther v. Watanabe, et al., Case No. 15-1-003-01 ECN (January 2, 2015) (the Guenther Action); Hudson v. Hawaiian Electric Industries, Inc., et al., Case No. 15-1-0013-01 JHC (January 5, 2015) (the Hudson Action); Grieco v. Hawaiian Electric Industries, Inc., et al., Case No. 15-1-0094-01 KKS (January 21, 2015) (the Grieco Action). On January 12, 2015, plaintiffs in the Miller Action, the Walsh Action, the Stein Action, the Brown Action, the Guenther Action, and the Hudson Action filed a motion to consolidate their actions and to appoint co-lead counsel. On January 23, 2015, the Cohn State Action was voluntarily dismissed. On January 27, 2015, Cohn filed a purported class action captioned Cohn v. Hawaiian Electric Industries, Inc., et al., Civil No. 15-00029-JMS-RLP in the United States District Court for the District of Hawaii against HEI, the individual directors of HEI, NEE and NEE’s acquisition subsidiaries (the Cohn Federal Action). On February 13, 2015, the state court orally granted the plaintiffs’ motions to consolidate the seven state court actions and appoint co-lead counsel and entered a written order granting the motions on March 6, 2015. On March 10, 2015, plaintiffs filed a first consolidated complaint in state court that added as a defendant J.P. Morgan Securities, LLC (JP Morgan), the financial advisor to HEI for the Merger, and deleted Hawaiian Electric Company, Inc. as a defendant and concurrently served a first request for production of documents on HEI and the individual directors. On March 17, 2015, plaintiffs filed a motion for limited expedited discovery in the consolidated state action and thereafter on March 25, 2015 withdrew their request for limited discovery and first request for production of documents as a result of the parties’ agreement to conduct certain specified limited discovery which included a stipulated confidentiality agreement and protective order protecting the confidentiality of certain information exchanged between the parties in connection with discovery in the consolidated action that was filed on April 6, 2015. On April 15 and 17, 2015, a deposition of a representative of HEI and a representative of JP Morgan were taken, respectively. On April 21, 2015, plaintiffs confirmed the cancellation of the preliminary injunction hearing that had been scheduled for May 5, 2015 in the consolidated action and on April 23, 2015, the state court entered a stipulation and order to extend indefinitely the time to answer or otherwise respond to the first amended consolidated complaint. On April 30, 2015, the state court entered a consolidated case management order confirming the consolidated treatment of the state actions for purposes of case management, pretrial discovery, procedural and other matters. On May 27, 2015, the federal court entered a stipulation and order approving the stipulation of the parties to stay the Cohn Federal Action pending the resolution of the state court consolidated action and administratively closing the Cohn Federal Action without prejudice to any party. On May 29, 2015, the state court entered a stipulated order amending the consolidated caption to read IN RE Consolidated HEI Shareholder Cases, Master File No. Civil No. 1CC15-1-HEI, to add JP Morgan as a named defendant in each individual action, add the caption for the Grieco Action, and remove Hawaiian Electric Company, Inc. from the caption in the Brown Action. In October 2015, several depositions of HEI representatives were taken in the state consolidated action. On February 9, 2016, plaintiffs filed an ex parte motion for second extension of time to file the pretrial statement in the state consolidated action from February 15, 2016 to August 15, 2016.

Following the termination of the Merger Agreement, a stipulation and order for dismissal with prejudice of all claims and parties was entered by the court in the Cohn Federal Action on July 22, 2016. The consolidated state court actions remain pending.

The pending consolidated state court actions allege, among other things, that members of HEI's Board of Directors (Board) breached their fiduciary duties in connection with the proposed transaction, and that the Merger Agreement involved an unfair price, was the product of an inadequate sales process, and contained unreasonable deal protection devices that purportedly precluded competing offers. The complaints further allege that HEI, NEE and/or its acquisition subsidiaries aided and abetted the purported breaches of fiduciary duty. The plaintiffs in the pending consolidated state actions also allege that JP Morgan had a conflict of interest in advising HEI because JP Morgan and its affiliates had business ties to and investments in NEE. The consolidated state action also alleges that the HEI Board violated its fiduciary duties by omitting material facts from the Registration Statement on Form S-4.

The plaintiffs in these lawsuits seek, among other things, (i) a declaration that the Merger Agreement was entered into in breach of HEI's directors' fiduciary duties, (ii) an injunction enjoining the HEI Board from consummating the Merger, (iii) an order directing the HEI Board to exercise their duties to obtain a transaction which is in the best interests of HEI's stockholders, (iv) a rescission of the Merger to the extent that it is consummated, and/or (v) damages suffered as a result of the defendants' alleged actions.

HEI and Hawaiian Electric believe the allegations in the complaints are without merit and are moot as a result of the termination of the Merger Agreement.

3 · Segment financial information

(in thousands)	Electric utility	Bank	Other	Total
Three months ended June 30, 2016				
Revenues from external customers	$ 495,349	$ 70,749	$ 146	$ 566,244
Intersegment revenues (eliminations)	46	—	(46)	—
Revenues	495,395	70,749	100	566,244
Income (loss) before income taxes	58,340	20,224	(7,653)	70,911
Income taxes (benefit)	21,984	6,939	(2,613)	26,310
Net income (loss)	36,356	13,285	(5,040)	44,601
Preferred stock dividends of subsidiaries	499	—	(26)	473
Net income (loss) for common stock	35,857	13,285	(5,014)	44,128
Six months ended June 30, 2016				
Revenues from external customers	$ 977,394	$ 139,589	$ 221	$ 1,117,204
Intersegment revenues (eliminations)	53	—	(53)	—
Revenues	977,447	139,589	168	1,117,204
Income (loss) before income taxes	98,759	39,818	(16,540)	122,037
Income taxes (benefit)	36,537	13,860	(5,786)	44,611
Net income (loss)	62,222	25,958	(10,754)	77,426
Preferred stock dividends of subsidiaries	998	—	(52)	946
Net income (loss) for common stock	61,224	25,958	(10,702)	76,480
Total assets (at June 30, 2016)	5,721,853	6,188,090	69,296	11,979,239
Three months ended June 30, 2015				
Revenues from external customers	$ 558,156	$ 65,783	$ (27)	$ 623,912
Intersegment revenues (eliminations)	7	—	(7)	—
Revenues	558,163	65,783	(34)	623,912
Income (loss) before income taxes	52,451	19,726	(15,775)	56,402
Income taxes (benefit)	19,111	6,875	(5,075)	20,911
Net income (loss)	33,340	12,851	(10,700)	35,491
Preferred stock dividends of subsidiaries	499	—	(26)	473
Net income (loss) for common stock	32,841	12,851	(10,674)	35,018
Six months ended June 30, 2015				
Revenues from external customers	$ 1,131,587	$ 130,131	$ 56	$ 1,261,774
Intersegment revenues (eliminations)	18	—	(18)	—
Revenues	1,131,605	130,131	38	1,261,774
Income (loss) before income taxes	95,674	40,357	(27,311)	108,720
Income taxes (benefit)	34,961	14,031	(8,102)	40,890
Net income (loss)	60,713	26,326	(19,209)	67,830
Preferred stock dividends of subsidiaries	998	—	(52)	946
Net income (loss) for common stock	59,715	26,326	(19,157)	66,884
Total assets (at December 31, 2015)*	5,672,210	6,014,755	95,053	11,782,018

* See Note 11 for the impact to prior period financial information of the adoption of Accounting Standards Update (ASU) No. 2015-03.

Intercompany electricity sales of the Utilities to the bank and “other” segments are not eliminated because those segments would need to purchase electricity from another source if it were not provided by the Utilities and the profit on such sales is nominal.

Bank fees that ASB charges the Utilities and "other" segments are not eliminated because those segments would pay fees to another financial institution if they were to bank with another institution and the profit on such fees is nominal.

4 · Electric utility segment

Revenue taxes. The Utilities' revenues include amounts for the recovery of various Hawaii state revenue taxes. Revenue taxes are generally recorded as an expense in the period the related revenues are recognized. However, the Utilities' revenue tax payments to the taxing authorities in the period are based on the prior year's billed revenues (in the case of public service company taxes and PUC fees) or on the current year's cash collections from electric sales (in the case of franchise taxes). The Utilities included in the second quarters of 2016 and 2015 and six months ended June 30, 2016 and 2015 approximately $44 million, $50 million, $87 million and $101 million, respectively, of revenue taxes in "revenues" and in "taxes, other than income taxes" expense.

Recent tax developments. On December 18, 2015, Congress passed, and President Obama signed into law, the "Protecting Americans from Tax Hikes (PATH) Act of 2015" and the "Consolidating Appropriations Act, 2016," providing government funding and a number of significant tax changes.

The provision with the greatest impact on the Company is the extension of bonus depreciation. The PATH Act continues 50% bonus depreciation through 2017 and phases down the percentage to 40% in 2018 and 30% in 2019 and then terminates bonus depreciation thereafter. The extension of bonus depreciation is expected to result in an increase in 2015 and 2016 tax depreciation of approximately $117 million and $126 million, respectively.

Additionally, the "Consolidating Appropriations Act, 2016" extended a variety of energy-related credits that were expired or were soon to expire. These credits include the production credit for wind facilities and the 30% investment credit for qualified solar energy property, with various phase-out dates through 2021.

Unconsolidated variable interest entities.

HECO Capital Trust III. HECO Capital Trust III (Trust III) was created and exists for the exclusive purposes of (i) issuing in March 2004 2,000,000 6.50% Cumulative Quarterly Income Preferred Securities, Series 2004 (2004 Trust Preferred Securities) ($50 million aggregate liquidation preference) to the public and trust common securities ($1.5 million aggregate liquidation preference) to Hawaiian Electric, (ii) investing the proceeds of these trust securities in 2004 Debentures issued by Hawaiian Electric in the principal amount of $31.5 million and issued by Hawaii Electric Light and Maui Electric each in the principal amount of $10 million, (iii) making distributions on these trust securities and (iv) engaging in only those other activities necessary or incidental thereto. The 2004 Trust Preferred Securities are mandatorily redeemable at the maturity of the underlying debt on March 18, 2034, which maturity may be extended to no later than March 18, 2053; and are currently redeemable at the issuer's option without premium. The 2004 Debentures, together with the obligations of the Utilities under an expense agreement and Hawaiian Electric's obligations under its trust guarantee and its guarantee of the obligations of Hawaii Electric Light and Maui Electric under their respective debentures, are the sole assets of Trust III. Taken together, Hawaiian Electric's obligations under the Hawaiian Electric debentures, the Hawaiian Electric indenture, the subsidiary guarantees, the trust agreement, the expense agreement and trust guarantee provide, in the aggregate, a full, irrevocable and unconditional guarantee of payments of amounts due on the Trust Preferred Securities. Trust III has at all times been an unconsolidated subsidiary of Hawaiian Electric. Since Hawaiian Electric, as the holder of 100% of the trust common securities, does not absorb the majority of the variability of Trust III, Hawaiian Electric is not the primary beneficiary and does not consolidate Trust III in accordance with accounting rules on the consolidation of VIEs. Trust III's balance sheets as of June 30, 2016 and December 31, 2015 each consisted of $51.5 million of 2004 Debentures; $50.0 million of 2004 Trust Preferred Securities; and $1.5 million of trust common securities. Trust III's income statements for the six months ended June 30, 2016 and 2015 each consisted of $1.7 million of interest income received from the 2004 Debentures; $1.6 million of distributions to holders of the Trust Preferred Securities; and $50,000 of common dividends on the trust common securities to Hawaiian Electric. As long as the 2004 Trust Preferred Securities are outstanding, Hawaiian Electric is not entitled to receive any funds from Trust III other than pro-rata distributions, subject to certain subordination provisions, on the trust common securities. In the event of a default by Hawaiian Electric in the performance of its obligations under the 2004 Debentures or under its Guarantees, or in the event any of the Utilities elect to defer payment of interest on any of their respective 2004 Debentures, then Hawaiian Electric will be subject to a number of restrictions, including a prohibition on the payment of dividends on its common stock.

Power purchase agreements. As of June 30, 2016, the Utilities had five PPAs for firm capacity and other PPAs with smaller IPPs and Schedule Q providers (i.e., customers with cogeneration and/or small power production facilities with a capacity of 100 kilowatts or less who buy power from or sell power to the Utilities), none of which are currently required to be consolidated as VIEs. Purchases from all IPPs were as follows:

	Three months ended June 30		Six months ended June 30	
(in millions)	2016	2015	2016	2015
AES Hawaii	$36	$26	$74	$60
Kalaeloa	36	48	65	92
HEP	4	10	15	21
Hpower	17	16	33	32
Puna Geothermal Venture	5	7	12	14
Hawaiian Commercial & Sugar (HC&S)	—	3	—	5
Other IPPs	41	39	56	61
Total IPPs	$139	$149	$255	$285

In October 2015 the amended PPA between Maui Electric and HC&S became effective following PUC approval in September 2015. The amended PPA amends the pricing structure and rates for energy sold to Maui Electric, eliminates the capacity payment to HC&S, eliminates Maui Electric's minimum purchase obligation, provides that Maui Electric may request up to 4 MW of scheduled energy during certain months, and be provided up to 16 MW of emergency power, and extends the term of the PPA from 2014 to 2017. In 2016 HC&S requested to terminate the PPA in January of 2017, approximately 1 year early due to HC&S ceasing sugar operations.

Some of the IPPs provided sufficient information for Hawaiian Electric to determine that the IPP was not a VIE, or was either a "business" or "governmental organization," and thus excluded from the scope of accounting standards for VIEs. Other IPPs declined to provide the information necessary for Hawaiian Electric to determine the applicability of accounting standards for VIEs.

Since 2004, Hawaiian Electric has continued its efforts to obtain from the IPPs the information necessary to make the determinations required under accounting standards for VIEs. In each year from 2005 to 2015, the Utilities sent letters to the identified IPPs requesting the required information. All of these IPPs declined to provide the necessary information, except that Kalaeloa later agreed to provide the information pursuant to the amendments to its PPA (see below) and an entity owning a wind farm provided information as required under its PPA. Management has concluded that the consolidation of two entities owning wind farms was not required as Hawaii Electric Light and Maui Electric do not have variable interests in the entities because the PPAs do not require them to absorb any variability of the entities. If the requested information is ultimately received from the remaining IPPs, a possible outcome of future analyses of such information is the consolidation of one or more of such IPPs in the Consolidated Financial Statements. The consolidation of any significant IPP could have a material effect on the Consolidated Financial Statements, including the recognition of a significant amount of assets and liabilities and, if such a consolidated IPP were operating at a loss and had insufficient equity, the potential recognition of such losses. If the Utilities determine they are required to consolidate the financial statements of such an IPP and the consolidation has a material effect, the Utilities would retrospectively apply accounting standards for VIEs.

Kalaeloa Partners, L.P. In October 1988, Hawaiian Electric entered into a PPA with Kalaeloa, subsequently approved by the PUC, which provided that Hawaiian Electric would purchase 180 megawatts (MW) of firm capacity for a period of 25 years beginning in May 1991. In October 2004, Hawaiian Electric and Kalaeloa entered into amendments to the PPA, subsequently approved by the PUC, which together effectively increased the firm capacity from 180 MW to 208 MW. The energy payments that Hawaiian Electric makes to Kalaeloa include: (1) a fuel component, with a fuel price adjustment based on the cost of low sulfur fuel oil, (2) a fuel additives cost component and (3) a non-fuel component, with an adjustment based on changes in the Gross National Product Implicit Price Deflator. The capacity payments that Hawaiian Electric makes to Kalaeloa are fixed in accordance with the PPA. Kalaeloa also has a steam delivery cogeneration contract with another customer. The facility has been certified by the Federal Energy Regulatory Commission as a Qualifying Facility under the Public Utility Regulatory Policies Act of 1978.

Hawaiian Electric and Kalaeloa are in negotiations to address the PPA term that ended on May 23, 2016. The PPA automatically extends on a month-to-month basis as long as the parties are still negotiating in good faith. The month-to-month term extensions shall end 60 days after either party notifies the other in writing that negotiations have terminated.

On August 1, 2016, Hawaiian Electric and Kalaeloa entered into an agreement that neither party will give written notice of termination of the PPA prior to October 31, 2017. This agreement complements continued negotiations between the parties and accounts for time needed for PUC approval of a negotiated resolution.

Pursuant to the current accounting standards for VIEs, Hawaiian Electric is deemed to have a variable interest in Kalaeloa by reason of the provisions of Hawaiian Electric’s PPA with Kalaeloa. However, management has concluded that Hawaiian

Electric is not the primary beneficiary of Kalaeloa because Hawaiian Electric does not have the power to direct the activities that most significantly impact Kalaeloa's economic performance nor the obligation to absorb Kalaeloa's expected losses, if any, that could potentially be significant to Kalaeloa. Thus, Hawaiian Electric has not consolidated Kalaeloa in its consolidated financial statements. The energy payments paid by Hawaiian Electric will fluctuate as fuel prices change, however, the PPA does not currently expose Hawaiian Electric to losses as the fuel and fuel related energy payments under the PPA have been approved by the PUC for recovery from customers through base electric rates and through Hawaiian Electric's ECAC to the extent the fuel and fuel related energy payments are not included in base energy rates. As of June 30, 2016, Hawaiian Electric's accounts payable to Kalaeloa amounted to $10 million.

AES Hawaii, Inc. In March 1988, Hawaiian Electric entered into a PPA with AES Barbers Point, Inc. (now known as AES Hawaii, Inc.), which, as amended (through Amendment No. 2) and approved by the PUC, provided that Hawaiian Electric would purchase 180 MW of firm capacity for a period of 30 years beginning in September 1992. In November 2015, Hawaiian Electric entered into an Amendment No. 3, for which PUC approval has been requested. If approved by the PUC, Amendment No. 3 would increase the firm capacity from 180 MW to a maximum of 189 MW. The payments that Hawaiian Electric makes to AES Hawaii for energy associated with the first 180 MW of firm capacity include a fuel component, a variable O&M component and a fixed O&M component, all of which are subject to adjustment based on changes in the Gross National Product Implicit Price Deflator. If Amendment No. 3 is approved by the PUC, payments for energy associated with firm capacity in excess of 180 MW will not include any O&M component or be subject to adjustment based on changes in the Gross National Product Implicit Price Deflator. The capacity payments that Hawaiian Electric makes to AES Hawaii are fixed in accordance with the PPA and, if approved by the PUC, Amendment No. 3.

Pursuant to the current accounting standards for VIEs, Hawaiian Electric is deemed to have a variable interest in AES Hawaii by reason of the provisions of Hawaiian Electric's PPA with AES Hawaii. However, management has concluded that Hawaiian Electric is not the primary beneficiary of AES Hawaii because Hawaiian Electric does not have the power to control the most significant activities of AES Hawaii that impact AES Hawaii's economic performance, including operations and maintenance of AES Hawaii's facility. Thus, Hawaiian Electric has not consolidated AES Hawaii in its consolidated financial statements. As of June 30, 2016, Hawaiian Electric's accounts payable to AES Hawaii amounted to $13 million.

Commitments and contingencies.

Fuel contracts. The Utilities have contractual agreements to purchase minimum quantities of fuel oil, diesel fuel and biodiesel for multi-year periods, some through October 2017. Fossil fuel prices are tied to the market prices of crude oil and petroleum products in the Far East and U.S. West Coast and the biodiesel price is tied to the market prices of animal fat feedstocks in the U.S. West Coast and U.S. Midwest.

Hawaiian Electric and Chevron Products Company (Chevron), a division of Chevron USA, Inc., are parties to the Low Sulfur Fuel Oil Supply Contract (LSFO Contract) for the purchase/sale of low sulfur fuel oil (LSFO), which terminates on December 31, 2016 and may automatically renew for annual terms thereafter unless earlier terminated by either party. The PUC approved the recovery of costs incurred under this contract on April 30, 2013.

On August 27, 2014, Chevron and Hawaiian Electric entered into a first amendment of the LSFO Contract. The amendment reduces the price of fuel above certain volumes, allows for increases in the volume of fuel, and modifies the specification of certain petroleum products supplied under the contract. In addition, Chevron agreed to supply a blend of LSFO and diesel as soon as January 2016 (for supply through the end of the contract term, December 31, 2016) to help Hawaiian Electric meet more stringent EPA air emission requirements known as Mercury and Air Toxics Standards. In March 2015, the amendment was approved by the PUC.

The Utilities are also parties to amended contracts for the supply of industrial fuel oil and diesel fuels with Chevron and Hawaii Independent Energy, LLC, (HIE), respectively, which were scheduled to end December 31, 2015, but have been extended through December 31, 2016. Both agreements may be automatically renewed for annual terms thereafter unless earlier terminated by either of the respective parties.

In August 2014, Chevron and the Utilities entered into a third amendment to the Inter-Island Industrial Fuel Oil and Diesel Fuel Supply Contract (Inter-island Fuel Supply Contract), which amendment extended the term of the contract through December 31, 2016 and provided for automatic renewal for annual terms thereafter unless earlier terminated by either party. In February 2015, Hawaiian Electric executed a similar extension, through December 31, 2016, of the corresponding Inter-Island Industrial Fuel Oil and Diesel Fuel Supply Contract with HIE.

In June 2015, the Utilities issued Requests for Proposals (RFP) for most of their fuel needs with supplies beginning in 2017 after the expiration of Chevron LSFO and Chevron/HIE Interisland contracts on December 31, 2016. Proposals were received in July 2015.

On February 18, 2016, Hawaiian Electric and Chevron entered into a fuel supply contract for LSFO, diesel and fuel to meet MATS requirements (2016 LSFO Contract) for the island of Oahu which terminates on December 31, 2019 and may automatically renew for annual terms thereafter unless earlier terminated by either party. Also on February 18, 2016, the Utilities and Chevron entered into a supply contract for industrial fuel oil, diesel and ultra-low sulfur diesel (Petroleum Fuels Contract) for the islands of Oahu, Maui, Molokai and the island of Hawaii , which terminates on December 31, 2019 and may automatically renew for annual terms thereafter unless earlier terminated by either party. Finally, on February 18, 2016, Hawaii Electric Light and Chevron entered into a fuels terminalling agreement which terminates on December 31, 2019 for the island of Hawaii and may automatically renew for annual terms thereafter unless earlier terminated by either party. Currently, terminalling services are provided for under the Inter-island Fuel Supply Contract with Chevron that expires on December 31, 2016. Each of these contracts are for a term of three years and become effective upon PUC approval, which approval has been requested by an application filed in February 2016, and each contract can be terminated if PUC approval is not received by October 1, 2016. Additionally, Chevron is required to comply with the agreed upon fuel specifications as set forth in the 2016 LSFO Contract and the Petroleum Fuels Contract.

The energy charge for energy purchased from Kalaeloa Partners, L.P. (Kalaeloa) under Hawaiian Electric’s PPA with Kalaeloa is based, in part, on the price Kalaeloa pays HIE for LSFO under a Facility Fuel Supply Contract (fuel contract) between them (assigned to HIE upon its purchase of the assets of Tesoro Hawaii Corp. as described above). The term of the fuel contract between Kalaeloa and HIE ended on May 31, 2016 and is being extended until terminated by one of the parties.

The costs incurred under the Utilities’ fuel contracts are included in their respective ECACs, to the extent such costs are not recovered through the Utilities’ base rates.

AES Hawaii, Inc. Under a PPA entered into in March 1988, as amended, for a period of 30 years beginning September 1992, Hawaiian Electric agreed to purchase 180 MW of firm capacity from AES Hawaii. In August 2012, Hawaiian Electric filed an application with the PUC seeking an exemption from the PUC’s Competitive Bidding Framework to negotiate an amendment to the PPA to purchase 186 MW of firm capacity, and amend the energy pricing formula in the PPA. The PUC approved the exemption in April 2013, but Hawaiian Electric and AES Hawaii were not able to reach agreement on an amendment. In June 2015, AES Hawaii filed an arbitration demand regarding a dispute about whether Hawaiian Electric was obligated to buy up to 9 MW of additional capacity based on a 1992 letter. Hawaiian Electric responded to the arbitration demand and, in October 2015, AES Hawaii and Hawaiian Electric entered into a Settlement Agreement to stay the arbitration proceeding. The Settlement Agreement includes certain conditions precedent which, if satisfied, will release the parties from the claims under the arbitration proceeding. Among the conditions precedent is the successful negotiation of an amendment to the existing purchase power agreement and PUC approval of such amendment.

On November 13, 2015, Hawaiian Electric entered into Amendment No. 3 to the AES Hawaii PPA, subject to PUC approval. Amendment No. 3 provides more favorable pricing for the additional 9 MW than the existing pricing, the benefit of which will be passed on to customers, and among other things, provides (1) for an increase in firm capacity of up to 9 MW (the Additional Capacity) above the 180 MW capacity of the AES Hawaii facility, subject to a demonstration of such increased available capacity, (2) for the payment for the Additional Capacity to include a Priority Peak Capacity Charge, a Non-Peak Capacity Charge, a Priority Peak Energy Charge and a Non-Peak Energy Charge and (3) that AES will make certain operational commitments to improve reliability, and Hawaiian Electric will pay a reliability bonus according to a schedule for reduced Full Plant Trips. On January 22, 2016, Amendment No. 3 was filed with the PUC for approval. If such approval is obtained, the final condition to the Settlement Agreement’s release of the parties from the arbitration claims will be satisfied. The arbitration proceeding has been stayed to allow the PUC approval proceeding to proceed.

Liquefied natural gas. On May 18, 2016, Hawaiian Electric and Fortis Hawaii Energy Inc. (Fortis Hawaii), an affiliate of Fortis, Inc. (Fortis), entered into a Fuel Supply Agreement (FSA) whereby Fortis Hawaii intended to sell to Hawaiian Electric liquefied natural gas (LNG) to be produced from the LNG facilities on Tilbury Island in Delta, British Columbia, Canada. Pursuant to the FSA, Fortis Hawaii had arranged, or planned to arrange, for the transportation of gas for delivery to, and liquefaction at, the Tilbury LNG facilities, including with respect to the transport and delivery of LNG across a jetty at such facilities, for the purchase and storage of LNG at such LNG facilities and for the transportation of LNG to delivery points in Hawaii for the benefit of Hawaiian Electric and its subsidiaries. The FSA was subject to approval by the PUC and to the satisfaction of certain conditions precedent, including the consummation of the merger between HEI and NEE. On July 16, 2016, pursuant to the terms of the Merger Agreement, NEE terminated the Merger Agreement. Accordingly, on July 19, 2016, Hawaiian Electric provided notice of termination of the FSA to Fortis Hawaii, effective immediately, and withdrew the application for PUC approval of the FSA, which included a request for approval to commit approximately $341 million to convert existing generating units to use natural gas, and to commit approximately $117 million for containers to support LNG. In addition, on July 19, 2016, Hawaiian Electric withdrew its applications to the PUC for a waiver from the competitive bidding process to allow Hawaiian Electric to construct a modern, efficient, combined cycle generation system at the Kahe power plant that would utilize LNG and to commit $859 million for such project. Hawaiian Electric will continue to evaluate all options to modernize generation using a cleaner fuel to bring price stability and support adding renewable energy for its customers.

Utility projects. Many public utility projects require PUC approval and various permits from other governmental agencies. Difficulties in obtaining, or the inability to obtain, the necessary approvals or permits can result in significantly increased project costs or even cancellation of projects. In the event a project does not proceed, or if it becomes probable the PUC will disallow cost recovery for all or part of a project, project costs may need to be written off in amounts that could result in significant reductions in Hawaiian Electric’s consolidated net income.

Renewable energy project matters. In February 2012, the PUC granted Hawaiian Electric’s request for deferred accounting treatment for the inter-island project support costs. The amount of the deferred costs was limited to $5.89 million. Through December 31, 2013, Hawaiian Electric deferred $3.1 million related to outside contractor service costs incurred with the Oahu 200 MW RFP, and began amortizing such costs over 3 years beginning in July 2014.

In May 2012, the PUC instituted a proceeding for a competitive bidding process for up to 50 MW of firm renewable geothermal dispatchable energy (Geothermal RFP) on the island of Hawaii, and in July 2012, Hawaii Electric Light filed an application to defer 2012 costs related to the Geothermal RFP. In November 2015, the PUC approved the deferral of $2.1 million of costs related to the Geothermal RFP, and will review the prudency and reasonableness of the deferred costs in the next Hawaii Electric Light rate case. In February 2013, Hawaii Electric Light issued the Final Geothermal RFP. Six bids were received, but Hawaii Electric Light notified bidders that none of the submitted bids sufficiently met both the low-cost and technical requirements of the Geothermal RFP. In October 2014, Hawaii Electric Light issued Addendum No. 1 (Best and Final Offer) and Attachment A (Best and Final Offer Bidder's Response Package) directly to five eligible bidders. The submittals received in January 2015 were considered for final selection of one project to proceed with PPA negotiations. In February 2015, Ormat Technologies, Inc. was selected for an award and began PPA negotiations with Hawaii Electric Light. In February 2016, Hawaii Electric Light provided the PUC with a status update notifying the PUC that Ormat Technologies, Inc. had determined the proposed project not to be economically and financially viable, resulting in conclusion of PPA negotiations. On March 8, 2016, the Independent Observer issued a report on the results of the negotiation phase of the Geothermal RFP.

In February 2016, Huena Power Inc. (Huena) filed with the PUC a Petition for Declaratory Order (which the PUC later dismissed without prejudice) and a Complaint relating to the Geothermal RFP. Hawaii Electric Light filed a motion to dismiss Huena’s Petition which was granted on March 28, 2016. Hawaii Electric Light’s motion to dismiss Huena’s Complaint is still pending.

Enterprise Resource Planning/Enterprise Asset Management (ERP/EAM) Implementation Project. The Utilities submitted its Enterprise Information System Roadmap to the PUC in June 2014 and refiled an application for an ERP/EAM implementation project in July 2014 with an estimated cost of $82.4 million. The refiled application addressed the concerns raised by the PUC, about the initial application, regarding the benefits to customers of completing this project. The estimated cost of the project included the cost of ERP software that had been purchased and recorded as a deferred cost.

To address the Consumer Advocate’s position that the proceeding should be stayed to determine if the project as proposed in the application is reasonable and necessary for future operations as an indirect NEE subsidiary, in May 2015, the Utilities filed a report describing the impact the pending merger with NEE would have on the scope, costs and benefits of the ERP/EAM project. The report indicated that the two viable courses of action for replacing its current system are Option A (to proceed with the project as initially scoped in the Application), and Option B (to move the Utilities to NEE’s existing ERP/EAM solutions). Option B is estimated to cost approximately $20.8 million less than Option A, but can only be pursued if the merger is approved. The Utilities requested the PUC to approve the commencement of work on Option B if the merger is approved; and in the alternative, Option A if the merger is not approved.

In October 2015, the PUC issued a D&O (1) finding that there is a need to replace the existing ERP/EAM system, (2) denying the Utilities request to defer the costs for the ERP software purchased in 2012 and (3) deferring any ruling on whether it is reasonable and in the public interest for the Utilities to commence with the project under Options B or A. As a result, the Utilities expensed the ERP software costs of $4.8 million in the third quarter of 2015, and pursuant to the remaining procedural schedule in the docket, in April 2016: (1) the Utilities filed additional information on the cost and benefits of the project, (2) the Consumer Advocate filed comments on that additional information and (3) the Utilities filed a reply to the Consumer Advocate's comments. There are no steps remaining in the procedural schedule, and with the termination of the Merger Agreement, Option B is no longer available. The Utilities are awaiting the issuance of a final D&O.

Schofield Generating Station Project. In August 2012, the PUC approved a waiver from the competitive bidding framework to allow Hawaiian Electric to negotiate with the U.S. Army for the construction of a 50 MW utility owned and operated firm, renewable and dispatchable generation facility at Schofield Barracks. In September 2015, the PUC approved Hawaiian Electric's application to expend $167 million for the project. In approving the project, the PUC placed a cost cap of

$167 million for the project, stated 90% of the cap is allowed for cost recovery through cost recovery mechanisms other than base rates, and stated the $167 million cap will be adjusted downward due to any reduction in the cost of the engine contract due to a reduction in the foreign exchange rate. Hawaiian Electric was required to take all necessary steps to lock in the lowest possible exchange rate. On January 5, 2016, Hawaiian Electric executed a window forward agreement which lowered the cost of the engine contract by $9.7 million, resulting in a revised project cost cap of $157.3 million. The generating station is now expected to be placed in service in the first quarter of 2018.

Environmental regulation. The Utilities are subject to environmental laws and regulations that regulate the operation of existing facilities, the construction and operation of new facilities and the proper cleanup and disposal of hazardous waste and toxic substances. In recent years, legislative, regulatory and governmental activities related to the environment, including proposals and rulemaking under the Clean Air Act and Clean Water Act (CWA), have increased significantly and management anticipates that such activity will continue.

Hawaiian Electric, Hawaii Electric Light and Maui Electric, like other utilities, periodically encounter petroleum or other chemical releases into the environment associated with current or previous operations. The Utilities report and take action on these releases when and as required by applicable law and regulations. The Utilities believe the costs of responding to such releases identified to date will not have a material adverse effect, individually or in the aggregate, on Hawaiian Electric’s consolidated results of operations, financial condition or liquidity.

Clean Water Act Section 316(b). On August 14, 2014, the EPA published in the Federal Register the final regulations required by section 316(b) of the CWA designed to protect aquatic organisms from adverse impacts associated with existing power plant cooling water intake structures. The regulations were effective October 14, 2014 and apply to the cooling water systems for the steam generating units at Hawaiian Electric’s power plants on the island of Oahu. The regulations prescribe a process, including a number of required site-specific studies, for states to develop facility-specific entrainment and impingement controls to be incorporated in each facility’s National Pollutant Discharge Elimination System permit. In the case of Hawaiian Electric’s power plants, there are a number of studies that have yet to be completed before Hawaiian Electric and the State of Hawaii Department of Health (DOH) can determine what entrainment or impingement controls, if any, might be necessary at the affected facilities to comply with the new 316(b) rule.

Mercury Air Toxics Standards. On February 16, 2012, EPA published the final rule establishing the National Emission Standards for Hazardous Air Pollutants for fossil-fuel fired steam electrical generating units (EGUs) in the Federal Register. The final rule, known as the Mercury and Air Toxics Standards (MATS), applies to the 14 EGUs at Hawaiian Electric’s power plants. MATS established the Maximum Achievable Control Technology standards for the control of hazardous air pollutants emissions from new and existing EGUs. Hawaiian Electric received a one-year extension to comply by April 16, 2016. Hawaiian Electric initially selected a MATS compliance strategy based on switching to lower emission fuels, but has since continued developing and refining its emission control strategy. Hawaiian Electric’s liquid oil-fired steam generating units that are subject to the MATS limits are able to comply with the new standards without a significant fuel switch in combination with a suite of operational changes.

On April 16, 2012, Hawaiian Electric submitted to the EPA a Petition for Reconsideration and Stay (Petition) that asked the EPA to revise an emissions standard for non-continental oil-fired EGUs on the grounds that the promulgated standard was incorrectly derived. On April 21, 2015, the EPA denied Hawaiian Electric's Petition and Hawaiian Electric subsequently filed a lawsuit on June 29, 2015 appealing EPA’s denial. On April 4, 2016, the D.C. Circuit Court of Appeals granted Hawaiian Electric’s uncontested motion to dismiss the case. Hawaiian Electric has proceeded with the implementation of the MATS Compliance Plan and has met all compliance requirements to date including the April 16, 2016 compliance date. Hawaiian Electric is on schedule to submit the formal compliance demonstration report by the October 13, 2016 deadline.

1-Hour Sulfur Dioxide National Ambient Air Quality Standard. On August 1, 2015, the EPA published the Data Requirements Rule for the 2010 1-Hour Sulfur Dioxide (SO_2) Primary National Ambient Air Quality Standard (NAAQS). Hawaiian Electric is working with the DOH to gather data EPA requires through the installation and operation of two new 1-hour SO_2 air quality monitoring stations on the island of Oahu. This data will be integrated into the DOH’s statewide monitoring network and will assist the State’s development of its strategy to maintain the

NAAQS and comply with the new 1-Hour SO_2 Rule in its State Implementation Plan.

Recent Settlements. Hawaiian Electric resolved outstanding claims raised by the U.S. Fish and Wildlife Service (USFWS) and the Hawaii Department of Land and Natural Resources, Division of Forestry and Wildlife (DOFAW) in March 2016. The USFWS and DOFAW had alleged that Hawaiian Electric violated the Endangered Species Act of 1973 in April of 2011, by clearing vegetation and impacting the habitat for Achatinella mustelina, an endangered Hawaiian tree snail, while servicing its facilities on Mt. Kaala on Oahu. In the respective final settlements resolving the governments' claims, Hawaiian Electric did not admit any liability, but paid a penalty of $250 to the U.S. Fish and Wildlife Service, and provided $200,000 to the Division of Forestry and Wildlife to rebuild an aging predator-proof snail enclosure in the Pahole Natural Area Reserve.

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Potential Clean Air Act Enforcement. On July 1, 2013, Hawaii Electric Light and Maui Electric (the Utilities) received a letter from the U.S. Department of Justice (DOJ) alleging potential violations of the Prevention of Significant Deterioration and Title V requirements of the Clean Air Act involving the Hill and Kahului Power Plants. In correspondence dated November 4, 2014, the DOJ also identified potential violations by Hawaiian Electric at its Kahe facility and proposed resolving the identified, potential violations by entering into a consent decree pursuant to which the Utilities would install certain pollution controls and pay a penalty. The Utilities continue to negotiate with the DOJ to resolve these issues, but are unable to estimate the amount or effect of a consent decree, if any, at this time.
Former Molokai Electric Company generation site. In 1989, Maui Electric acquired by merger Molokai Electric Company. Molokai Electric Company had sold its former generation site (Site) in 1983, but continued to operate at the Site under a lease until 1985. The EPA has since identified environmental impacts in the subsurface soil at the Site. Although Maui Electric never operated at the Site or owned the Site property, after discussions with the EPA and the DOH Maui Electric agreed to undertake additional investigations at the Site and an adjacent parcel that Molokai Electric Company had used for equipment storage (the Adjacent Parcel) to determine the extent of environmental contamination. A 2011 assessment by a Maui Electric contractor of the Adjacent Parcel identified environmental impacts, including elevated polychlorinated biphenyls (PCBs) in the subsurface soils. In cooperation with the DOH and EPA, Maui Electric is further investigating the Site and the Adjacent Parcel to determine the extent of impacts of PCBs, residual fuel oils and other subsurface contaminants. Maui Electric has a reserve balance of $3.6 million as of June 30, 2016 for the additional investigation and estimated cleanup costs at the Site and the Adjacent Parcel; however, final costs of remediation will depend on the results of continued investigation.
Pearl Harbor sediment study. In July 2014, the U.S. Navy notified Hawaiian Electric of the Navy’s determination that Hawaiian Electric is a Potentially Responsible Party responsible for cleanup of PCB contamination in sediment in the area offshore of the Waiau Power Plant as part of the Pearl Harbor Superfund Site. The Navy has also requested that Hawaiian Electric reimburse the costs incurred by the Navy to date to investigate the area. The Navy has completed a remedial investigation and a feasibility study (FS) for the remediation of contaminated sediment at several locations in Pearl Harbor and issued its Final FS Report on June 29, 2015. On February 2, 2016, the Navy released the Proposed Plan for Pearl Harbor Sediment Remediation and Hawaiian Electric submitted comments. The extent of the contamination, the appropriate remedial measures to address it and Hawaiian Electric’s potential responsibility for any associated costs have not been determined.
On March 23, 2015, Hawaiian Electric received a letter from the EPA requesting that Hawaiian Electric submit a work plan to assess potential sources and extent of PCB contamination onshore at the Waiau Power Plant. Hawaiian Electric submitted a sampling and analysis (SAP) work plan to the EPA and the DOH. Sampling of outfall sediments at the Waiau Power Plant was completed in accordance with the SAP in December 2015, and additional onshore soil sampling was completed in June 2016. The extent of the onshore contamination, the appropriate remedial measures to address it and any associated costs have not yet been determined.
As of June 30, 2016, the reserve account balance recorded by Hawaiian Electric to address the PCB contamination was $4.5 million. The reserve represents the probable and reasonably estimable cost to complete the onshore and offshore investigations and the remediation of PCB contamination in the offshore sediment. The final remediation costs will depend on the results of the onshore investigation and assessment of potential source control requirements, as well as the further investigation of contaminated sediment offshore from the Waiau Power Plant.
Global climate change and greenhouse gas emissions reduction. National and international concerns about climate change and the contribution of greenhouse gas (GHG) emissions (including carbon dioxide emissions from the combustion of fossil fuels) to climate change have led to federal legislative and regulatory proposals and action by the State of Hawaii to reduce GHG emissions.
In July 2007, the State Legislature passed Act 234, which requires a statewide reduction of GHG emissions by January 1, 2020 to levels at or below the statewide GHG emission levels in 1990. On June 20, 2014, the Governor signed the final regulations required to implement Act 234 (i.e., the final GHG rule), which went into effect on June 30, 2014. In general, Act 234 and the corresponding GHG rule require affected sources (that have the potential to emit GHGs in excess of established thresholds) to reduce their GHG emissions by 16% below 2010 emission levels by 2020. In accordance with the GHG rule, the Utilities submitted their Emissions Reduction Plan (EmRP) to the DOH

on June 30, 2015, demonstrating how they will comply. The Utilities have committed to a 16% reduction in GHG emissions company-wide. Pursuant to the State's GHG rule, the DOH will incorporate the proposed facility-specific GHG emission limits into each facility's covered source permit based on the 2020 levels specified in Hawaiian Electric's approved EmRP.

The GHG rule also requires affected sources to pay an annual fee that is based on tons per year of GHG emissions starting on the effective date of the regulations. The fee for the Utilities is estimated to be approximately $0.5 million annually. The latest assessment of the proposed federal and final state GHG rules is that the continued growth in renewable power generation will significantly reduce the compliance costs and risk for the Utilities.

As part of a negotiated amendment to the Power Purchase Agreement between Hawaiian Electric and AES Hawaii (AES), Hawaiian Electric plans to include the AES facility on Oahu as a partner in the Utilities' EmRP. Additionally, if the proposed acquisition of the Hamakua Energy Partners (HEP) facility by Hawaii Electric Light is approved by the PUC, the GHG emissions from the HEP facility would need to be addressed in the Utilities' EmRP. Hawaiian Electric is working with the DOH on the timing of the EmRP modifications to address these changes in the partnership.

On September 22, 2009, the EPA issued its "Final Mandatory Reporting of Greenhouse Gases Rule," which requires certain sources that emit GHGs to report their GHG emissions. Following these requirements, the Utilities have submitted the required reports for 2010 through 2015 to the EPA.

The EPA issued the final federal rule for GHG emissions limits for new and existing EGUs, also known as the Clean Power Plan, on August 3, 2015. The Clean Power Plan set interim state-wide emissions limits for EGUs operating in the 48 contiguous states that must be met on average from 2022 through 2029, with final limits in effect starting in 2030. The final Clean Power Plan did not set forth guidelines for Alaska, Hawaii, Puerto Rico or Guam, because the EPA did not have enough information to include them at the time the Rule was published. Subsequently, on February 9, 2016, the U.S. Supreme Court granted a stay of the Clean Power Plan pending resolution of several petitions for review in the U.S. Court of Appeals for the D.C. Circuit Court.

The Utilities have taken, and continue to identify opportunities to take, direct action to reduce GHG emissions from their operations, including supporting DSM programs that foster energy efficiency, using renewable resources for energy production and purchasing power from IPPs generated by renewable resources, burning renewable biodiesel in Hawaiian Electric's Campbell Industrial Park combustion turbine No. 1 (CIP CT-1), using biodiesel for startup and shutdown of selected Maui Electric generating units, and testing biofuel blends in other Hawaiian Electric and Maui Electric generating units. The Utilities will continue to pursue the use of cleaner fuels to replace, at least in part, petroleum. Management is unable to evaluate the ultimate impact on the Utilities' operations of more comprehensive GHG regulations that might be promulgated; however, the various initiatives that the Utilities are pursuing are likely to provide a sound basis for appropriately managing the Utilities' carbon footprint and thereby meet both state and federal GHG reduction goals.

While the timing, extent and ultimate effects of climate change cannot be determined with any certainty, climate change is predicted to result in sea level rise. This effect could potentially result in impacts to coastal and other low-lying areas (where much of the Utilities' electric infrastructure is sited), and result in increased flooding and storm damage due to heavy rainfall, increased rates of beach erosion, saltwater intrusion into freshwater aquifers and terrestrial ecosystems, and higher water tables in low-lying areas. The effects of climate change on the weather (for example, more intense or more frequent rain events, flooding, or hurricanes), sea levels, and freshwater availability and quality have the potential to materially adversely affect the results of operations, financial condition and liquidity of the Utilities. For example, severe weather could cause significant harm to the Utilities' physical facilities.

Asset retirement obligations. Asset retirement obligations (AROs) represent legal obligations associated with the retirement of certain tangible long-lived assets, are measured as the present value of the projected costs for the future retirement of specific assets and are recognized in the period in which the liability is incurred if a reasonable estimate of fair value can be made. The Utilities' recognition of AROs have no impact on their earnings. The cost of the AROs is recovered over the life of the asset through depreciation. AROs recognized by the Utilities relate to obligations to retire plant and equipment, including removal of asbestos and other hazardous materials.

Hawaiian Electric has recorded estimated AROs related to removing retired generating units at its Honolulu and Waiau power plants. These removal projects are ongoing, with activity and expenditures occurring in partial settlement of these liabilities. Both removal projects are expected to continue through 2016.

Changes to the ARO liability included in "Other liabilities" on Hawaiian Electric's balance sheet were as follows:

	Six months ended June 30	
(in thousands)	2016	2015
Balance, beginning of period	$26,848	$29,419
Accretion expense	7	12

Liabilities incurred	—	—
Liabilities settled	(259)	(1,881)
Revisions in estimated cash flows	—	—
Balance, end of period	$26,596	$27,550

Decoupling. In 2010, the PUC issued an order approving decoupling, which was implemented by Hawaiian Electric on March 1, 2011, by Hawaii Electric Light on April 9, 2012 and by Maui Electric on May 4, 2012. Decoupling is a regulatory model that is intended to facilitate meeting the State of Hawaii's goals to transition to a clean energy economy and achieve an aggressive renewable portfolio standard. The decoupling model implemented in Hawaii delinks revenues from sales and includes annual rate adjustments for certain other operation and maintenance (O&M) expenses and rate base changes. The decoupling mechanism has three components: (1) a sales decoupling component via a revenue balancing account (RBA), (2) a revenue escalation component via a RAM and (3) an earnings sharing mechanism, which would provide for a reduction of revenues between rate cases in the event the utility exceeds the return on average common equity (ROACE) allowed in its most recent rate case. Decoupling provides for more timely cost recovery and earning on investments. Under the decoupling tariff approved in 2011, the annual RAM is accrued and billed from June 1 of each year through May 31 of the following year.

As part of a January 2013 Settlement Agreement with the Consumer Advocate, which was approved by the PUC, for RAM years 2014 -2016, Hawaiian Electric was allowed to record RAM revenue beginning on January 1 and to bill such amounts from June 1 of the applicable year through May 31 of the following year. After 2016, the RAM provisions approved in 2011 will again apply to Hawaiian Electric.

On May 31, 2013, as provided for in its original order issued in 2010 approving decoupling and citing three years of implementation experience for Hawaiian Electric, the PUC opened an investigative docket to review whether the decoupling mechanisms are functioning as intended, are fair to the Utilities and their ratepayers and are in the public interest. The PUC affirmed its support for the continuation of the sales decoupling (RBA) mechanism and stated its interest in evaluating the RAM to ensure it provides the appropriate balance of risks, costs, incentives and performance requirements, as well as administrative efficiency, and whether the current interest rate applied to the outstanding RBA balance is reasonable. In October 2013, the PUC issued orders that bifurcated the proceeding (into Schedule A and Schedule B issues).

On February 7, 2014, the PUC issued a decision and order (D&O) on the Schedule A issues, which made certain modifications to the decoupling mechanism. Specifically, the D&O required:

- An adjustment to the Rate Base RAM Adjustment to include 90% of the amount of the current RAM Period Rate Base RAM Adjustment that exceeds the Rate Base RAM Adjustment from the prior year, to be effective with the Utilities' 2014 decoupling filing.
- Effective March 1, 2014, the interest rate to be applied on the outstanding RBA balances to be the short term debt rate used in each Utilities last rate case (ranging from 1.25% to 3.25%), instead of the 6% that had been previously approved.

As required, the Utilities have made available to the public, on the Utilities' websites, performance metrics identified by the PUC. The Utilities are updating the performance metrics on a quarterly basis.

On March 31, 2015, the PUC issued an Order (the March Order) related to the Schedule B portion of the proceeding to make certain further modifications to the decoupling mechanism, and to establish a briefing schedule with respect to certain issues in the proceeding. The March Order modified the RAM portion of the decoupling mechanism to be capped at the lesser of the RAM Revenue Adjustment as currently determined (adjusted to eliminate the 90% limitation on the current RAM Period Rate Base RAM adjustment that was ordered in the Schedule A portion of the proceeding) and a RAM Revenue Adjustment calculated based on the cumulative annual compounded increase in Gross Domestic Product Price Index (GDPPI) applied to the 2014 annualized target revenues (adjusted for certain items specified in the Order). The 2014 annualized target revenues represent the target revenues from the last rate case, and RAM revenues, offset by earnings sharing credits, if any, allowed under the decoupling mechanism through the 2014 decoupling filing. The Utilities may apply to the PUC for approval of recovery of revenues for Major Projects (including related baseline projects grouped together for consideration as Major Projects) through the RAM above the RAM cap or outside of the RAM through the Renewable Energy Infrastructure Program (REIP) surcharge or other adjustment mechanism. The RAM was amended on an interim basis pending the outcome of the PUC's review of the Utilities' Power Supply Improvement Plans. The triennial rate case cycle required under the decoupling mechanism continues to serve as the maximum period between the filing of general rate cases, and the amendments to the RAM do not limit or dilute the ordinary opportunities for the Utilities to seek rate relief according to conventional/traditional ratemaking procedures.

In making the modifications to the RAM Adjustment, the PUC stated the changes are designed to provide the PUC with control of and prior regulatory review over substantial additions to baseline projects between rate cases. The modifications do not deprive the Utilities of the opportunity to recover any prudently incurred expenditure or limit orderly recovery for necessary expanded capital programs.

The RBA, which is the sales decoupling component, was retained by the PUC in its March Order, and the PUC made no change in the authorized return on common equity. The PUC stated that performance-based ratemaking is not adopted at this time.

As required by the March Order, the Parties filed initial and reply briefs related to the following issues: (1) whether and, if so, how the conventional performance incentive mechanisms proposed in this proceeding should be refined and implemented in this docket; (2) what are the appropriate steps, processes and timing for determining measures to improve the efficiency and effectiveness of the general rate case filing and review process; and (3) what are the appropriate steps, processes and timing to further consider the merits of the proposed changes to the ECAC identified in this proceeding. In identifying the issue on possible changes to the ECAC, the PUC stated that changes to the ECAC should be made with great care to avoid unintended consequences.

In accordance with the March Order, the Utilities and the Consumer Advocate filed on June 15, 2015, their Joint Proposed Modified REIP Framework/Standards and Guidelines regarding the eligibility of projects for cost recovery above the RAM Cap through the REIP surcharge. On the same date, the Utilities filed their proposed standards and guidelines on the eligibility of projects for cost recovery through the RAM above the RAM Cap. On June 30, 2015, the Consumer Advocate filed comments on this proposal, and the County of Hawaii filed comments on both the REIP and the RAM above the RAM Cap proposals. On October 26, 2015, Hawaiian Electric filed an application to recover the revenue requirements associated with 2015 net plant additions in the amount of $40.3 million and other associated costs for its Underground Cable Program and the 138kV Transmission and 46kV Sub-Transmission Structures Major Baseline Projects through the RAM above the 2015 RAM Cap. On October 30, 2015, Maui Electric filed an application to recover the revenue requirements associated with 2015 net plant additions in the amount of $4.3 million and other associated costs for its transmission and distribution and generation plant reliability Major Baseline Project through the RAM above the 2015 RAM Cap. In November 2015, the Consumer Advocate filed preliminary statements of position (PSOPs) on these two applications, recommending that the PUC reject the applications. In December 2015, the Utilities filed responses to the Consumer Advocate’s PSOPs, pointing out that the PUC had already authorized the filing of such applications for recovery of capital costs above the RAM Cap and requesting that the PUC proceed with review of the applications. In March 2016, Maui Electric withdrew its October 30, 2015 application. Maui Electric determined that the application is unnecessary because it could recover the revenue requirements associated with its 2015 net plant additions under the RAM Cap due to: (1) the extension of bonus depreciation in 2015 which resulted in an increased level of accumulated deferred income taxes as an offset to 2015 net plant additions; and (2) the recorded amount of net plant additions in 2015 was less than the estimate of net plant additions in the application. On April 18, 2016, Hawaiian Electric modified its October 26, 2015 application to reduce its request to recover revenue requirements associated with 2015 net plant additions from $40.3 million to $35.7 million for the same reason as Maui Electric regarding the extension of bonus depreciation in 2015.

Annual decoupling filings. On March 31, 2016, the Utilities submitted to the PUC their annual decoupling filings for tariffed rates that will be effective from June 1, 2016 through May 31, 2017. On May 19, 2016, Hawaii Electric Light amended its annual decoupling filing to update and revise certain cost information. The tariffed rates include: (1) 2016 RAM Revenue Adjustment as determined by the March Order, (2) accrued earnings sharing credits to be refunded, and (3) the amount of the accrued RBA balance as of December 31, 2015 (and associated revenue taxes) to be collected:

($ in millions)	Hawaiian Electric	Hawaii Electric Light	Maui Electric
Annual incremental RAM adjusted revenues	$ 11.0	$ 2.3	$ 2.4
Annual change in accrued earnings sharing credits	$ —	$ —	$ 0.5
Annual change in accrued RBA balance as of December 31, 2015 (and associated revenue taxes)	$ (13.6)	$ (2.5)	$ (4.3)
Net annual incremental decrease in amount to be collected under the tariffs	$ (2.6)	$ (0.2)	$ (1.4)
Impact on typical residential customer monthly bill (in dollars) *	$ 0.01	$ 0.13	$ (0.95)

Note: Columns may not foot due to rounding

* Based on a 500 kilowatthour (KWH) bill for Hawaiian Electric, Maui Electric and Hawaii Electric Light. The bill impact for Lanai and Molokai customers is a decrease of $0.76, based on a 400 KWH bill. Although Hawaiian Electric and Hawaii Electric Light have a net annual incremental decrease in amount to be collected under the tariffs, their bills will increase by $0.01 and $0.13, respectively, due to lower anticipated KWH sales.

On May 24, 2016, the PUC approved the annual decoupling filings for Hawaiian Electric and Maui Electric, and as amended on May 19, 2016, for Hawaii Electric Light, to go into effect on June 1, 2016.

Potential impact of lava flows. In June 2014, lava from the Kilauea Volcano on the island of Hawaii began flowing toward the town of Pahoa. Hawaii Electric Light monitored utility property and equipment near the affected areas and protected that property and equipment to the extent possible (e.g., building barriers around poles). In March 2015 Hawaii Electric Light filed an application with the PUC requesting approval to defer costs incurred to monitor, prepare for, respond to, and take other actions necessary in connection with the June 2014 Kilauea lava flow such that Hawaii Electric Light can request PUC approval to recover those costs in a future rate case. The Consumer Advocate objected to the request. A PUC decision is pending.

Hawaiian Telcom. The Utilities each have separate agreements for the joint ownership and maintenance of utility poles with Hawaiian Telcom, Inc. (Hawaiian Telcom), the respective county or counties in which each utility operates and other third parties, such as the State of Hawaii. The agreements set forth various circumstances requiring pole removal/installation/replacement and the sharing of costs among the joint pole owners. The agreements allow for the cost of work done by one joint pole owner to be shared by the other joint pole owners based on the apportionment of costs in the agreements. The Utilities have maintained, replaced and installed the majority of the jointly-owned poles in each of the respective service territories, and have billed the other joint pole owners for their respective share of the costs. The counties and the State have been fully reimbursing the Utilities for their share of the costs. However, Hawaiian Telcom has been delinquent in reimbursing the Utilities for its share of the costs.

For Hawaiian Electric, a dispute resolution process to collect the unpaid amounts from Hawaiian Telcom is proceeding as specified by the joint pole agreement. For Hawaii Electric Light, the agreement does not specify an alternative dispute resolution process, and thus a complaint for payment was filed with the Circuit Court in June 2016. Maui Electric has not yet commenced any legal action to recover the delinquent amounts. As of June 30, 2016, total receivables, including interest, from Hawaiian Telcom are $19.2 million ($13.3 million at Hawaiian Electric, $5.6 million at Hawaii Electric Light, and $0.3 million at Maui Electric). Management has reserved for the accrued interest on the receivables amounting to $3.5 million. Management expects to prevail on their claims and collect at least $15.7 million.

April 2014 regulatory orders. In April 2014, the PUC issued four orders that collectively address certain key policy, resource planning and operational issues for the Utilities. The four orders are as follows:

Integrated Resource Planning. The PUC did not accept the Utilities' Integrated Resource Plan and Action Plans submission, and, in lieu of an approved plan, has commenced other initiatives to enable resource planning. The PUC directed each of Hawaiian Electric and Maui Electric to file within 120 days its respective Power Supply Improvement Plans (PSIPs), and the PSIPs were filed in August 2014. The PUC also provided its inclinations on the future of Hawaii's electric utilities in an exhibit to the order. The exhibit provides the PUC's perspectives on the vision, business strategies and regulatory policy changes required to align the Utilities' business model with customers' interests and the state's public policy goals.

Reliability Standards Working Group. The PUC ordered the Utilities (and in some cases the Kauai Island Utility Cooperative) to take timely actions intended to lower energy costs, improve system reliability and address emerging challenges to integrate additional renewable energy. In addition to the PSIPs mentioned above, the PUC ordered certain filing requirements, which include the following:

- Distributed Generation Interconnection Plan - the Utilities' Plan was filed in August 2014.
- Plan to implement an on-going distribution circuit monitoring program to measure real-time voltage and other power quality parameters - the Utilities' Plan was filed in June 2014.
- Action Plan for improving efficiencies in the interconnection requirements studies - the Utilities' Plan was filed in May 2014.
- The Utilities are to file monthly reports providing details about interconnection requirements studies.
- Integrated interconnection queue for each distribution circuit for each island grid - the Utilities' integrated interconnection queue plan was filed in August 2014 and the integrated interconnection queues were implemented in January 2015.

The PUC also stated it would be opening new dockets to address (1) reliability standards, (2) the technical, economic and policy issues associated with distributed energy resources (see "Distributed Energy Resources (DER) Investigative Proceeding" below) and (3) the Hawaii electricity reliability administrator, which is a third party position which the legislature has authorized the PUC to create by contract to provide support for the PUC in developing and periodically updating local grid reliability standards and procedures and interconnection requirements and overseeing grid access and operation.

Policy Statement and Order Regarding Demand Response Programs. The PUC provided guidance concerning the objectives and goals for demand response programs, and ordered the Utilities to develop an integrated Demand Response (DR) Portfolio Plan that will enhance system operations and reduce costs to customers. The Utilities' Plan was filed in July 2014. Subsequently, the Utilities submitted status updates and an update and supplemental report to the Plan. On July 28, 2015, the PUC issued an order appointing a special advisor to guide, monitor and review the Utility's Plan design and implementation.

On December 30, 2015, the Utilities filed applications with the PUC (1) for approval of their proposed DR Portfolio Tariff Structure, Reporting Schedule and Cost Recovery of Program Costs through the Demand-Side Management (DSM) Surcharge, and (2) for approval to defer and recover certain computer software and software development costs for a Demand Response Management System (DRMS) through the Renewable Energy Infrastructure Program (REIP) Surcharge. In July 2016, the PUC issued an order in the DR Portfolio Tariff proceeding. The PUC granted intervenor and participant status to certain movants, made some preliminary observations on the proposed grid service tariffs and supporting modeling efforts, and instructed the Utilities to move forward with the development of DR programs for all islands. The PUC plans to conduct one or more technical conferences and ordered the Utilities to develop an implementation timeline and procedural schedule to enable an end-of-year implementation.

Maui Electric Company 2012 Test Year Rate Case. The PUC acknowledged the extensive analyses provided by Maui Electric in its System Improvement and Curtailment Reduction Plan (SICRP) filed in September 2013. The PUC stated that it is encouraged by the changes in Maui Electric's operations that have led to a significant reduction in the curtailment of renewables, but stated that Maui Electric has not set forth a clearly defined path that addresses integration and curtailment of additional renewables. The PUC directed Maui Electric to present a PSIP to address present and future system operations so as to not only reduce curtailment, but to optimize the operation of its system for its customers' benefit. The Maui Electric PSIP was filed in August 2014, and is currently being reviewed by the PUC in a new docket along with the Hawaiian Electric and Hawaii Electric Light PSIPs. Maui Electric filed its second annual SICRP status update in September 2015.

Review of PSIPs. Collectively, the PUC's April 2014 resource planning orders confirm the energy policy and operational priorities that will guide the Utilities' strategies and plans going forward.

PSIPs for Hawaiian Electric, Maui Electric and Hawaii Electric Light were filed in August 2014. The PSIPs each include a tactical plan to transform how electric utility services will be offered to meet customer needs and produce higher levels of renewable energy. Each plan contains a diversified mix of technologies, including significant distributed and utility scale renewable resources, that is expected to result, on a consolidated basis, in over 65% of the Utilities' energy being produced from renewable resources by 2030. Under these plans, the Utilities will support sustainable growth of rooftop solar, expand use of energy storage systems, empower customers by developing smart grids, offer new products and services to customers (e.g., community solar, microgrids and voluntary "demand response" programs), switch from high-priced oil to lower cost liquefied natural gas, retire higher-cost, less efficient existing oil-based steam generators and lower full service residential customer bills in real dollars.

In November 2015, the PUC issued an order in the proceeding to review the PSIPs filed. The order provided observations and concerns on the PSIPs submitted. As required by the order, the Utilities submitted a Proposed Revision Plan in November 2015, which included a schedule and a work plan to supplement, amend and update the PSIPs in order to address the PUC's observations and concerns, and submitted updated PSIPs on April 1, 2016. The parties and participants filed comments on the Utilities Proposed Revision Plan in January 2016. The updated PSIPs, filed on April 1, 2016, provide the Utilities' assumptions, analyses and plans to achieve 100% renewable energy using a diverse mix of energy resources by 2045.

The Utilities plan to submit to the PUC, in late September 2016, an update to the April 1, 2016 PSIPs to reflect 2016 fuel price forecasts from the Energy Information Administration, updated cost assumptions, inter-island cable analysis and the termination of the Merger Agreement. The Utilities will continue to evaluate all options to modernize generation using a cleaner fuel to bring price stability and support adding renewable energy for their customers. The PUC is expected to provide further guidance regarding the course of the proceeding.

Distributed Energy Resources (DER) Investigative Proceeding. In March 2015, the PUC issued an order to address DER issues.

On June 29, 2015, the Utilities submitted their final Statement of Position in the DER proceeding, which included:

(1) new pricing provisions for future rooftop photovoltaic (PV) systems,
(2) technical standards for advanced inverters,
(3) new options for customers including battery-equipped rooftop PV systems,
(4) a pilot time-of-use rate,
(5) an improved method of calculating the amount of rooftop PV that can be safely installed, and

(6) a streamlined and standardized PV application process.

On October 12, 2015, the PUC issued a D&O establishing DER reforms that: (1) promote rapid adoption of the next generation of solar PV and other distributed energy technologies; (2) encourage more competitive pricing of distributed energy resource systems; (3) lower overall energy supply costs for all customers; and (4) help to manage DER in terms of each island’s limited grid capacity.

The D&O approved a customer self-supply tariff and a customer grid supply tariff to govern customer generators connected to the Utilities' systems. These tariffs replace the Net Energy Metering (NEM) program.

The D&O ordered the Utilities, among other things, (a) to collaborate with inverter manufacturers to develop a test plan by December 15, 2015 for the highest priority advanced inverter functions that are not UL certified and (b) to complete the circuit-level hosting capacity analysis for all islands in the Utilities' service territories by December 10, 2015. The DER Phase 2 of this docket began in November 2015 and focused on further developing competitive markets for distributed energy resources, including storage.

On October 21, 2015, The Alliance for Solar Choice, LLC (TASC) filed a complaint in Hawaii state court seeking an order enjoining the PUC from implementing the D&O and declaring that the D&O be reversed, modified and/or remanded to the PUC for further proceedings. On January 19, 2016, the Circuit Court entered a final judgment against TASC on all of its claims. TASC has filed a notice of appeal from the final judgment. TASC also filed a second appeal of the D&O directly with the Intermediate Court of Appeals. On April 20, 2016, the Intermediate Court of Appeals approved stipulations to dismiss both appeals with prejudice.

On June 15, 2016, the PUC issued an order approving the Utilities' Advanced Inverter Test Plan with, among other conditions, a requirement to supplement the Test Plan to include testing procedures. In addition, the PUC ordered the Utilities to submit the results of the testing described in the Test Plan by December 15, 2016.

Derivative financial instrument. On January 5, 2016, Hawaiian Electric executed a window forward agreement to hedge the foreign currency risk associated with the anticipated purchase of engines from a European manufacturer to be included as part of the Schofield generating station. This window forward agreement has been designated as a cash flow hedge under which a single guaranteed exchange rate agreed upon on a certain date for future currency transactions scheduled to occur on specific dates with a "window" or range of plus/minus 30 days. Unrealized gains are recorded at fair value as assets in "other current assets," and unrealized losses are recorded at fair value as liabilities in "other current liabilities," both for the period they are outstanding. For this window forward agreement, the effective portion is reported as a component of accumulated other comprehensive income until reclassified into net income consistent with any gains or losses recognized on the engines. The generating station is expected to be placed in service in the first quarter of 2018.

	June 30, 2016		December 31, 2015	
(dollars in thousands)	Notional amount	Fair value	Notional amount	Fair value
Window forward contract	$20,637	$466	$ —	$ —

Consolidating financial information. Hawaiian Electric is not required to provide separate financial statements or other disclosures concerning Hawaii Electric Light and Maui Electric to holders of the 2004 Debentures issued by Hawaii Electric Light and Maui Electric to Trust III since all of their voting capital stock is owned, and their obligations with respect to these securities have been fully and unconditionally guaranteed, on a subordinated basis, by Hawaiian Electric. Consolidating information is provided below for Hawaiian Electric and each of its subsidiaries for the periods ended and as of the dates indicated.

Hawaiian Electric also unconditionally guarantees Hawaii Electric Light's and Maui Electric's obligations (a) to the State of Hawaii for the repayment of principal and interest on Special Purpose Revenue Bonds issued for the benefit of Hawaii Electric Light and Maui Electric, (b) under their respective private placement note agreements and the Hawaii Electric Light notes and Maui Electric notes issued thereunder and (c) relating to the trust preferred securities of Trust III. Hawaiian Electric is also obligated, after the satisfaction of its obligations on its own preferred stock, to make dividend, redemption and liquidation payments on Hawaii Electric Light's and Maui Electric's preferred stock if the respective subsidiary is unable to make such payments.

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Income
Three months ended June 30, 2016

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$347,010	73,652	74,758	—	(25)	$ 495,395
Expenses						
Fuel oil	62,234	11,748	17,917	—	—	91,899
Purchased power	103,062	19,360	16,636	—	—	139,058
Other operation and maintenance	68,197	15,116	16,250	—	—	99,563
Depreciation	31,522	9,449	5,789	—	—	46,760
Taxes, other than income taxes	33,414	6,905	7,110	—	—	47,429
Total expenses	298,429	62,578	63,702	—	—	424,709
Operating income	48,581	11,074	11,056	—	(25)	70,686
Allowance for equity funds used during construction	1,559	206	232	—	—	1,997
Equity in earnings of subsidiaries	10,883	—	—	—	(10,883)	—
Interest expense and other charges, net	(10,345)	(2,669)	(2,114)	—	25	(15,103)
Allowance for borrowed funds used during construction	587	79	94	—	—	760
Income before income taxes	51,265	8,690	9,268	—	(10,883)	58,340
Income taxes	15,138	3,337	3,509	—	—	21,984
Net income	36,127	5,353	5,759	—	(10,883)	36,356
Preferred stock dividends of subsidiaries	—	133	96	—	—	229
Net income attributable to Hawaiian Electric	36,127	5,220	5,663	—	(10,883)	36,127
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income for common stock	$35,857	5,220	5,663	—	(10,883)	$ 35,857

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Comprehensive Income
Three months ended June 30, 2016

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$35,857	5,220	5,663	—	(10,883)	$ 35,857
Other comprehensive income (loss), net of taxes:						
Derivatives qualified as cash flow hedges:						
Effective portion of foreign currency hedge net unrealized loss, net of tax benefits	(745)	—	—	—	—	(745)
Retirement benefit plans:						
Less: amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	3,391	401	357	—	(758)	3,391
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(3,401)	(402)	(359)	—	761	(3,401)
Other comprehensive income (loss), net of taxes	(755)	(1)	(2)	—	3	(755)
Comprehensive income attributable to common shareholder	$35,102	5,219	5,661	—	(10,880)	$ 35,102

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Income
Three months ended June 30, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$391,007	83,732	83,442	—	(18)	$ 558,163
Expenses						
Fuel oil	104,278	16,241	25,712	—	—	146,231
Purchased power	107,370	24,555	17,359	—	—	149,284
Other operation and maintenance	66,428	16,158	16,278	—	—	98,864
Depreciation	29,389	9,312	5,540	—	—	44,241
Taxes, other than income taxes	37,479	7,944	7,959	—	—	53,382
Total expenses	344,944	74,210	72,848	—	—	492,002
Operating income	46,063	9,522	10,594	—	(18)	66,161
Allowance for equity funds used during construction	1,581	165	150	—	—	1,896
Equity in earnings of subsidiaries	9,624	—	—	—	(9,624)	—
Interest expense and other charges, net	(11,290)	(2,592)	(2,424)	—	18	(16,288)
Allowance for borrowed funds used during construction	564	58	60	—	—	682
Income before income taxes	46,542	7,153	8,380	—	(9,624)	52,451
Income taxes	13,431	2,536	3,144	—	—	19,111
Net income	33,111	4,617	5,236	—	(9,624)	33,340
Preferred stock dividends of subsidiaries	—	133	96	—	—	229
Net income attributable to Hawaiian Electric	33,111	4,484	5,140	—	(9,624)	33,111
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income for common stock	$32,841	4,484	5,140	—	(9,624)	$ 32,841

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Comprehensive Income
Three months ended June 30, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$32,841	4,484	5,140	—	(9,624)	$ 32,841
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Less: amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	5,257	713	652	—	(1,365)	5,257
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(5,272)	(716)	(655)	—	1,371	(5,272)
Other comprehensive income (loss), net of taxes	(15)	(3)	(3)	—	6	(15)
Comprehensive income attributable to common shareholder	$32,826	4,481	5,137	—	(9,618)	$ 32,826

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Income
Six months ended June 30, 2016

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$684,185	146,835	146,464	—	(37)	$977,447
Expenses						
Fuel oil	136,319	26,122	43,198	—	—	205,639
Purchased power	194,979	36,157	23,781	—	—	254,917
Other operation and maintenance	137,755	31,557	34,159	—	—	203,471
Depreciation	63,044	18,898	11,599	—	—	93,541
Taxes, other than income taxes	66,098	13,796	13,973	—	—	93,867
Total expenses	598,195	126,530	126,710	—	—	851,435
Operating income	85,990	20,305	19,754	—	(37)	126,012
Allowance for equity funds used during construction	2,965	333	438	—	—	3,736
Equity in earnings of subsidiaries	18,812	—	—	—	(18,812)	—
Interest expense and other charges, net	(22,210)	(5,634)	(4,604)	—	37	(32,411)
Allowance for borrowed funds used during construction	1,116	128	178	—	—	1,422
Income before income taxes	86,673	15,132	15,766	—	(18,812)	98,759
Income taxes	24,909	5,683	5,945	—	—	36,537
Net income	61,764	9,449	9,821	—	(18,812)	62,222
Preferred stock dividends of subsidiaries	—	267	191	—	—	458
Net income attributable to Hawaiian Electric	61,764	9,182	9,630	—	(18,812)	61,764
Preferred stock dividends of Hawaiian Electric	540	—	—	—	—	540
Net income for common stock	$61,224	9,182	9,630	—	(18,812)	$61,224

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Comprehensive Income
Six months ended June 30, 2016

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$61,224	9,182	9,630	—	(18,812)	$61,224
Other comprehensive income (loss), net of taxes:						
Derivatives qualified as cash flow hedges:						
Effective portion of foreign currency hedge net unrealized gain, net of taxes	257	—	—	—	—	257
Retirement benefit plans:						
Less: amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	6,627	859	775	—	(1,634)	6,627
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(6,623)	(860)	(777)	—	1,637	(6,623)
Other comprehensive income (loss), net of taxes	261	(1)	(2)	—	3	261
Comprehensive income attributable to common shareholder	$61,485	9,181	9,628	—	(18,809)	$61,485

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Income
Six months ended June 30, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$790,748	171,787	169,116	—	(46)	$1,131,605
Expenses						
Fuel oil	222,681	39,626	60,730	—	—	323,037
Purchased power	210,620	46,448	28,223	—	—	285,291
Other operation and maintenance	136,512	32,557	33,797	—	—	202,866
Depreciation	58,778	18,625	11,081	—	—	88,484
Taxes, other than income taxes	75,680	16,328	16,122	—	—	108,130
Total expenses	704,271	153,584	149,953	—	—	1,007,808
Operating income	86,477	18,203	19,163	—	(46)	123,797
Allowance for equity funds used during construction	2,704	310	295	—	—	3,309
Equity in earnings of subsidiaries	17,316	—	—	—	(17,316)	—
Interest expense and other charges, net	(22,528)	(5,272)	(4,859)	—	46	(32,613)
Allowance for borrowed funds used during construction	952	111	118	—	—	1,181
Income before income taxes	84,921	13,352	14,717	—	(17,316)	95,674
Income taxes	24,666	4,813	5,482	—	—	34,961
Net income	60,255	8,539	9,235	—	(17,316)	60,713
Preferred stock dividends of subsidiaries	—	267	191	—	—	458
Net income attributable to Hawaiian Electric	60,255	8,272	9,044	—	(17,316)	60,255
Preferred stock dividends of Hawaiian Electric	540	—	—	—	—	540
Net income for common stock	$59,715	8,272	9,044	—	(17,316)	$59,715

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Comprehensive Income
Six months ended June 30, 2015

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$59,715	8,272	9,044	—	(17,316)	$ 59,715
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Less: amortization of prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	10,190	1,364	1,252	—	(2,616)	10,190
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(10,183)	(1,367)	(1,255)	—		