HAWAIIAN ELECTRIC INDUSTRIES INC
Form 10-Q
August 11, 2014
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, 2014
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.

Large accelerated filer x Large accelerated filer o

Hawaiian Electric Industries, Inc.	Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o	Hawaiian Electric Company, Inc.	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 31, 2014
Hawaiian Electric Industries, Inc. (Without Par Value)	102,560,176 Shares
Hawaiian Electric Company, Inc. ($6-2/3 Par Value)	15,429,105 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.

Hawaiian Electric Industries, Inc. and Subsidiaries
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GLOSSARY OF TERMS

Terms	Definitions
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 American Savings Holdings, Inc.
ASHI	American Savings Holdings, Inc., a wholly owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.
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); American Savings Holdings, Inc. and its subsidiary, American Savings Bank, F.S.B.; HEI Properties, Inc.; Hawaiian Electric Industries Capital Trust II and Hawaiian Electric Industries Capital Trust III (inactive financing entities); 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
DBEDT	State of Hawaii Department of Business, Economic Development and Tourism
D&O	Decision and order
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
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 clauses
EIP	2010 Equity and Incentive Plan
EGU	Electrical generating unit
Energy Agreement	Agreement dated October 20, 2008 and signed by the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and Hawaiian Electric, for itself and on behalf of its electric utility subsidiaries committing to actions to develop renewable energy and reduce dependence on fossil fuels in support of the HCEI
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
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association

FRB	Federal Reserve Board

GLOSSARY OF TERMS, continued

Terms	Definitions
GAAP	Accounting principles generally accepted in the United States of America
GHG	Greenhouse gas
GNMA	Government National Mortgage Association
HCEI	Hawaii Clean Energy Initiative
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.
Hawaii Electric Light	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
HEI	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., American Savings Holdings, Inc., HEI Properties, Inc., Hawaiian Electric Industries Capital Trust II, Hawaiian Electric Industries Capital Trust III 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
IRP	Integrated resource planning
Kalaeloa	Kalaeloa Partners, L.P.
KW	Kilowatt
KWH	Kilowatthour
LTIP	Long-term incentive plan
LGD	Loss given default
Maui Electric	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
MW	Megawatt/s (as applicable)
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
PUC	Public Utilities Commission of the State of Hawaii
RAM	Revenue adjustment mechanism
RBA	Revenue balancing account
RFP	Request for proposals
REIP	Renewable Energy Infrastructure Program
ROACE	Return on average common equity
RORB	Return on average rate base
RPS	Renewable portfolio standard
SAR	Stock appreciation right
SEC	Securities and Exchange Commission
See	Means the referenced material is incorporated by reference
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 “expects,” “anticipates,” “intends,” “plans,” “believes,” “predicts,” “estimates” or similar expressions. In addition, any 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 American Savings Bank, F.S.B. (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, unrest, ongoing conflicts in North Africa and the Middle East, terrorist acts, potential conflict or crisis with North Korea or Iran, and developments in the Ukraine);
- 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 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 implementation of the Energy Agreement with the State of Hawaii and Consumer Advocate (Energy Agreement), setting forth the goals and objectives of a Hawaii Clean Energy Initiative (HCEI), and the fulfillment by the Utilities of their commitments under the Energy Agreement (given the Public Utilities Commission of the State of Hawaii (PUC) approvals needed; the PUC’s potential delay in considering (and potential disapproval of actual or proposed) HCEI-related costs; reliance by the Utilities on outside parties such as the state, independent power producers (IPPs) and developers; potential changes in political support for the HCEI; and uncertainties surrounding wind power, proposed undersea cables, biofuels, environmental assessments and the impacts of implementation of the HCEI on future costs of electricity);
- the ability of the Utilities to develop, implement and recover the costs of implementing the Utilities’ action plans and business model changes that are 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, 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 of other cost recovery mechanisms, including the purchased power adjustment clauses (PPACs), revenue 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, as contemplated under the Energy Agreement, 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 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 HEI, ASB and the Utilities or their competitors;
- 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 renewable portfolio standards (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 revenue adjustment mechanisms;
- 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);
- 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;
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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)	2014	2013	2014	2013
Revenues				
Electric utility	$738,429	$728,525	$1,458,491	$1,445,966
Bank	60,616	66,027	124,235	130,783
Other	(388)	15	(320)	50
Total revenues	798,657	794,567	1,582,406	1,576,799
Expenses				
Electric utility	668,361	669,550	1,317,757	1,335,870
Bank	43,568	41,322	85,564	84,327
Other	4,453	3,488	8,504	7,570
Total expenses	716,382	714,360	1,411,825	1,427,767
Operating income (loss)				
Electric utility	70,068	58,975	140,734	110,096
Bank	17,048	24,705	38,671	46,456
Other	(4,841)	(3,473)	(8,824)	(7,520)
Total operating income	82,275	80,207	170,581	149,032
Interest expense, net—other than on deposit liabilities and other bank borrowings	(20,022)	(18,442)	(39,478)	(37,173)
Allowance for borrowed funds used during construction	523	398	1,137	1,128
Allowance for equity funds used during construction	1,387	1,560	2,996	2,775
Income before income taxes	64,163	63,723	135,236	115,762
Income taxes	22,269	22,662	46,942	40,549
Net income	41,894	41,061	88,294	75,213
Preferred stock dividends of subsidiaries	473	473	946	946
Net income for common stock	$41,421	$40,588	$87,348	$74,267
Basic earnings per common share	$0.41	$0.41	$0.86	$0.75
Diluted earnings per common share	$0.41	$0.41	$0.86	$0.75
Dividends per common share	$0.31	$0.31	$0.62	$0.62
Weighted-average number of common shares outstanding	101,495	98,660	101,439	98,399
Net effect of potentially dilutive shares	330	589	606	562
Adjusted weighted-average shares	101,825	99,249	102,045	98,961

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)	2014	2013	2014	2013
Net income for common stock	$41,421	$40,588	$87,348	$74,267
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on securities:				
Net unrealized gains (losses) on securities arising during the period, net of (taxes) benefits of ($1,679), $5,485, ($3,343) and $6,032 for the respective periods	2,543	(8,307)	5,063	(9,135)
Less: reclassification adjustment for net realized gains included in net income, net of taxes of nil, $488, $1,132 and $488 for the respective periods	—	(738)	(1,715)	(738)
Derivatives qualified as cash flow hedges:				
Less: reclassification adjustment to net income, net of tax benefits of $38, $38, $75 and $75 for the respective periods	59	59	118	118
Retirement benefit plans:				
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $1,742, $3,630, $3,632 and $7,476 for the respective periods	2,873	5,680	5,686	11,701
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $1,641, $3,184, $3,239 and $6,568 for the respective periods	(2,575)	(4,999)	(5,085)	(10,312)
Other comprehensive income (loss), net of taxes	2,900	(8,305)	4,067	(8,366)
Comprehensive income attributable to Hawaiian Electric Industries, Inc.	$44,321	$32,283	$91,415	$65,901

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

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

(dollars in thousands)	June 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$188,377	$220,036
Accounts receivable and unbilled revenues, net	349,771	346,785
Available-for-sale investment and mortgage-related securities	549,321	529,007
Investment in stock of Federal Home Loan Bank of Seattle	80,863	92,546
Loans receivable held for investment, net	4,245,240	4,110,113
Loans held for sale, at lower of cost or fair value	956	5,302
Property, plant and equipment, net of accumulated depreciation of $2,224,728 and $2,192,422 at the respective dates	3,980,096	3,865,514
Regulatory assets	582,645	575,924
Other	557,684	512,627
Goodwill	82,190	82,190
Total assets	$10,617,143	$10,340,044
Liabilities and shareholders’ equity		
Liabilities		
Accounts payable	$176,379	$212,331
Interest and dividends payable	25,315	26,716
Deposit liabilities	4,524,860	4,372,477
Short-term borrowings—other than bank	185,175	105,482
Other bank borrowings	242,455	244,514
Long-term debt, net—other than bank	1,517,945	1,492,945
Deferred income taxes	579,222	529,260
Regulatory liabilities	354,980	349,299
Contributions in aid of construction	442,379	432,894
Defined benefit pension and other postretirement benefit plans liability	278,427	288,539
Other	494,834	524,224
Total liabilities	8,821,971	8,578,681
Preferred stock of subsidiaries - not subject to mandatory redemption	34,293	34,293
Commitments and contingencies (Notes 3 and 4)		
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: 101,560,176 shares and 101,259,800 shares at the respective dates	1,493,436	1,488,126
Retained earnings	280,126	255,694
Accumulated other comprehensive loss, net of tax benefits	(12,683)	(16,750)
Total shareholders’ equity	1,760,879	1,727,070
Total liabilities and shareholders’ equity	$10,617,143	$10,340,044

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, 2013	101,260	$1,488,126	$255,694	$(16,750)	$1,727,070
Net income for common stock	—	—	87,348	—	87,348
Other comprehensive income, net of taxes	—	—	—	4,067	4,067
Issuance of common stock, net	300	5,310	—	—	5,310
Common stock dividends ($0.62 per share)	—	—	(62,916)	—	(62,916)
Balance, June 30, 2014	101,560	$1,493,436	$280,126	$(12,683)	$1,760,879
Balance, December 31, 2012	97,928	$1,403,484	$216,804	$(26,423)	$1,593,865
Net income for common stock	—	—	74,267	—	74,267
Other comprehensive loss, net of tax benefits	—	—	—	(8,366)	(8,366)
Issuance of common stock, net	1,116	25,887	—	—	25,887
Common stock dividends ($0.62 per share)	—	—	(61,004)	—	(61,004)
Balance, June 30, 2013	99,044	$1,429,371	$230,067	$(34,789)	$1,624,649

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	2014	2013
(in thousands)		
Cash flows from operating activities		
Net income	$88,294	$75,213
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	86,397	79,843
Other amortization	4,014	2,868
Provision for loan losses	2,016	899
Loans receivable originated and purchased, held for sale	(69,656)	(128,276)
Proceeds from sale of loans receivable, held for sale	75,040	148,243
Increase in deferred income taxes	28,252	40,403
Excess tax benefits from share-based payment arrangements	(267)	(445)
Allowance for equity funds used during construction	(2,996)	(2,775)
Change in cash overdraft	(1,038)	—
Changes in assets and liabilities		
Decrease (increase) in accounts receivable and unbilled revenues, net	(2,986)	3,564
Decrease (increase) in fuel oil stock	(27,206)	43,974
Increase in regulatory assets	(17,731)	(37,586)
Decrease in accounts, interest and dividends payable	(64,843)	(43,384)
Change in prepaid and accrued income taxes and utility revenue taxes	(32,510)	(33,822)
Decrease in defined benefit pension and other postretirement benefit plans liability	(1,714)	(330)
Change in other assets and liabilities	(16,871)	(17,597)
Net cash provided by operating activities	46,195	130,792
Cash flows from investing activities		
Available-for-sale investment and mortgage-related securities purchased	(125,531)	(39,721)
Principal repayments on available-for-sale investment and mortgage-related securities	33,202	62,819
Proceeds from sale of available-for-sale investment securities	79,564	71,367
Redemption of stock from Federal Home Loan Bank of Seattle	11,683	1,742
Net increase in loans held for investment	(137,122)	(201,184)
Proceeds from sale of real estate acquired in settlement of loans	2,162	5,712
Capital expenditures	(149,253)	(158,830)
Contributions in aid of construction	13,209	17,188
Other	(16)	622
Net cash used in investing activities	(272,102)	(240,285)
Cash flows from financing activities		
Net increase in deposit liabilities	152,383	46,326
Net increase in short-term borrowings with original maturities of three months or less	79,693	42,093
Net decrease in retail repurchase agreements	(2,053)	(8,054)
Proceeds from other bank borrowings	—	25,000
Repayments of other bank borrowings	—	(25,000)
Proceeds from issuance of long-term debt	125,000	50,000
Repayment of long-term debt	(100,000)	(50,000)
Excess tax benefits from share-based payment arrangements	267	445
Net proceeds from issuance of common stock	3,048	11,994
Common stock dividends	(62,892)	(48,921)
Preferred stock dividends of subsidiaries	(946)	(946)
Other	(252)	606

Net cash provided by financing activities	194,248	43,543
Net decrease in cash and cash equivalents	(31,659)	(65,950)
Cash and cash equivalents, beginning of period	220,036	219,662
Cash and cash equivalents, end of period	$188,377	$153,712

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

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

	Three months ended June 30		Six months ended June 30	
(in thousands)	2014	2013	2014	2013
Revenues	$738,429	$728,525	$1,458,491	$1,445,966
Expenses				
Fuel oil	270,257	289,278	556,557	594,378
Purchased power	188,323	178,444	353,239	331,808
Other operation and maintenance	98,564	94,397	187,170	196,210
Depreciation	41,593	38,590	83,196	76,870
Taxes, other than income taxes	69,624	68,841	137,595	136,604
Total expenses	668,361	669,550	1,317,757	1,335,870
Operating income	70,068	58,975	140,734	110,096
Allowance for equity funds used during construction	1,387	1,560	2,996	2,775
Interest expense and other charges, net	(16,852)	(14,408)	(32,575)	(28,927)
Allowance for borrowed funds used during construction	523	398	1,137	1,128
Income before income taxes	55,126	46,525	112,292	85,072
Income taxes	20,397	17,333	41,644	30,952
Net income	34,729	29,192	70,648	54,120
Preferred stock dividends of subsidiaries	229	229	458	458
Net income attributable to Hawaiian Electric	34,500	28,963	70,190	53,662
Preferred stock dividends of Hawaiian Electric	270	270	540	540
Net income for common stock	$34,230	$28,693	$69,650	$53,122

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.

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

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

	Three months ended June 30		Six months ended June 30	
(in thousands)	2014	2013	2014	2013
Net income for common stock	$34,230	$28,693	$69,650	$53,122
Other comprehensive income, net of taxes:				
Retirement benefit plans:				
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits of $1,647, $3,195, $3,252 and $6,590 for the respective periods	2,588	5,016	5,107	10,347
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $1,641, $3,184, $3,239 and $6,568 for the respective periods	(2,575)	(4,999)	(5,085)	(10,312)
Other comprehensive income, net of taxes	13	17	22	35
Comprehensive income attributable to Hawaiian Electric Company, Inc.	$34,243	$28,710	$69,672	$53,157

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

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

(dollars in thousands, except par value)	June 30, 2014	December 31, 2013
Assets		
Property, plant and equipment		
Utility property, plant and equipment		
Land	$52,010	$51,883
Plant and equipment	5,830,723	5,701,875
Less accumulated depreciation	(2,150,913)	(2,111,229)
Construction in progress	168,280	143,233
Utility property, plant and equipment, net	3,900,100	3,785,762
Nonutility property, plant and equipment, less accumulated depreciation of $1,226 and $1,223 at respective dates	6,564	6,567
Total property, plant and equipment, net	3,906,664	3,792,329
Current assets		
Cash and cash equivalents	12,720	62,825
Customer accounts receivable, net	175,634	175,448
Accrued unbilled revenues, net	141,869	144,124
Other accounts receivable, net	18,915	14,062
Fuel oil stock, at average cost	161,293	134,087
Materials and supplies, at average cost	60,879	59,044
Prepayments and other	61,891	52,857
Regulatory assets	78,945	69,738
Total current assets	712,146	712,185
Other long-term assets		
Regulatory assets	503,700	506,186
Unamortized debt expense	8,905	9,003
Other	68,426	67,426
Total other long-term assets	581,031	582,615
Total assets	$5,199,841	$5,087,129
Capitalization and liabilities		
Capitalization		
Common stock ($6 2/3 par value, authorized 50,000,000 shares; outstanding 15,429,105 shares)	$102,880	$102,880
Premium on capital stock	541,449	541,452
Retained earnings	974,028	948,624
Accumulated other comprehensive income, net of income taxes-retirement benefit plans	630	608
Common stock equity	1,618,987	1,593,564
Cumulative preferred stock — not subject to mandatory redemption	34,293	34,293
Long-term debt, net	1,206,545	1,206,545
Total capitalization	2,859,825	2,834,402
Commitments and contingencies (Note 3)		
Current liabilities		
Current portion of long-term debt	11,400	11,400
Short-term borrowings from non-affiliates	102,989	—
Accounts payable	153,743	189,559
Interest and preferred dividends payable	21,751	21,652
Taxes accrued	216,374	249,445

Regulatory liabilities	789	1,916
Other	64,569	63,881
Total current liabilities	571,615	537,853
Deferred credits and other liabilities		
Deferred income taxes	557,056	507,161
Regulatory liabilities	354,191	347,383
Unamortized tax credits	77,713	73,539
Defined benefit pension and other postretirement benefit plans liability	252,785	262,162
Other	84,277	91,735
Total deferred credits and other liabilities	1,326,022	1,281,980
Contributions in aid of construction	442,379	432,894
Total capitalization and liabilities	$5,199,841	$5,087,129

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

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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, 2013	15,429	$102,880	$541,452	$948,624	$ 608	$1,593,564
Net income for common stock	—	—	—	69,650	—	69,650
Other comprehensive income, net of taxes	—	—	—	—	22	22
Common stock dividends	—	—	—	(44,246)	—	(44,246)
Common stock issuance expenses	—	—	(3)	—	—	(3)
Balance, June 30, 2014	15,429	$102,880	$541,449	$974,028	$ 630	$1,618,987
Balance, December 31, 2012	14,665	$97,788	$468,045	$907,273	$ (970)	$1,472,136
Net income for common stock	—	—	—	53,122	—	53,122
Other comprehensive income, net of taxes	—	—	—	—	35	35
Common stock dividends	—	—	—	(40,789)	—	(40,789)
Balance, June 30, 2013	14,665	$97,788	$468,045	$919,606	$ (935)	$1,484,504

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	2014	2013
(in thousands)		
Cash flows from operating activities		
Net income	$70,648	$54,120
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	83,196	76,870
Other amortization	3,597	2,884
Increase in deferred income taxes	45,386	38,780
Change in tax credits, net	4,227	2,997
Allowance for equity funds used during construction	(2,996)	(2,775)
Change in cash overdraft	(1,038)	—
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	(5,039)	32,253
Decrease (increase) in accrued unbilled revenues	2,255	(4,889)
Decrease (increase) in fuel oil stock	(27,206)	43,974
Increase in materials and supplies	(1,835)	(7,139)
Increase in regulatory assets	(17,731)	(37,586)
Decrease in accounts payable	(63,306)	(41,234)
Change in prepaid and accrued income taxes and utility revenue taxes	(38,270)	(38,123)
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	(498)	989
Change in other assets and liabilities	(26,258)	(9,419)
Net cash provided by operating activities	25,132	111,702
Cash flows from investing activities		
Capital expenditures	(145,734)	(150,251)
Contributions in aid of construction	13,209	17,188
Other	—	623
Net cash used in investing activities	(132,525)	(132,440)
Cash flows from financing activities		
Common stock dividends	(44,246)	(40,789)
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	102,989	53,992
Other	(457)	(9)
Net cash provided by financing activities	57,288	12,196
Net decrease in cash and cash equivalents	(50,105)	(8,542)
Cash and cash equivalents, beginning of period	62,825	17,159
Cash and cash equivalents, end of period	$12,720	$8,617

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, 2013.
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 the Company’s and Hawaiian Electric's financial position as of June 30, 2014 and December 31, 2013, the results of its operations for the three and six months ended June 30, 2014 and 2013, and its cash flows for the six months ended June 30, 2014 and 2013. All such adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q or other referenced material. Results of operations for interim periods are not necessarily indicative of results for the full year.
Reclassifications and revisions. In the fourth quarter of 2013, Hawaiian Electric changed its consolidated statements of income for 2013 and prior comparative periods from a utility presentation to a commercial company presentation, under which all operating revenues and expenses (including non-regulated revenues and expenses) are included in the determination of operating income. Additionally, income tax expense, which was previously included partially in operating expenses and partially in other income (deductions), is now entirely presented directly above net income in income taxes and includes income taxes related to non-regulated revenues and expenses.
In making the change to a commercial company presentation, the Company discovered that interest on the Utilities’ uncollected revenue balancing accounts and the income tax gross-up adjustment for allowance for funds used during construction (AFUDC)-equity were incorrectly included in HEI consolidated revenues and is revising its previously filed quarterly Consolidated Statements of Income for 2013 to move the amounts to “Interest expense, net-other than on deposit liabilities and other bank borrowings” and income taxes, respectively. The Company and the Utilities have also revised their property, plant and equipment as of December 31, 2013 to correct for an error that excluded Hawaiian Electric consolidated non-utility property plant and equipment amounts.

The table below illustrates the effects of the revisions on the previously filed financial statements:

(in thousands)	As previously filed	As revised	Difference
HEI consolidated			
Consolidated Statements of Income			
Three months ended June 30, 2013			
Revenues	$796,730	$794,567	$(2,163)
Operating income	82,370	80,207	(2,163)
Interest expense, net—other than on deposit liabilities and other bank borrowings	(19,613)	(18,442)	1,171
Income before income taxes	64,715	63,723	(992)
Income taxes	23,654	22,662	(992)
Six months ended June 30, 2013			
Revenues	1,580,794	1,576,799	(3,995)
Operating income	153,027	149,032	(3,995)
Interest expense, net—other than on deposit liabilities and other bank borrowings	(39,401)	(37,173)	2,228
Income before income taxes	117,529	115,762	(1,767)
Income taxes	42,316	40,549	(1,767)
Consolidated Balance Sheets			
December 31, 2013			
Property, plant and equipment, net of accumulated depreciation	3,858,947	3,865,514	6,567
Accumulated depreciation	(2,191,199)	(2,192,422)	(1,223)
Other assets	519,194	512,627	(6,567)
Hawaiian Electric consolidated			
Consolidated Balance Sheets			
December 31, 2013			
Other assets	73,993	67,426	(6,567)

The reclassifications and revisions made to prior periods' financial statements for the three and six months ended June 30, 2013 and as of December 31, 2013 to conform to the presentation for the three and six months ended, and as of, June 30, 2014 did not affect previously reported net income and cash flows and were not considered material to previously filed financial statements.

2 · Segment financial information

(in thousands)	Electric utility	Bank	Other	Total
Three months ended June 30, 2014				
Revenues from external customers	$738,423	$60,616	$(382)	$798,657
Intersegment revenues (eliminations)	6	—	(6)	—
Revenues	738,429	60,616	(388)	798,657
Income (loss) before income taxes	55,126	17,048	(8,011)	64,163
Income taxes (benefit)	20,397	5,372	(3,500)	22,269
Net income (loss)	34,729	11,676	(4,511)	41,894
Preferred stock dividends of subsidiaries	499	—	(26)	473
Net income (loss) for common stock	34,230	11,676	(4,485)	41,421
Six months ended June 30, 2014				
Revenues from external customers	$1,458,479	$124,235	$(308)	$1,582,406
Intersegment revenues (eliminations)	12	—	(12)	—
Revenues	1,458,491	124,235	(320)	1,582,406
Income (loss) before income taxes	112,292	38,672	(15,728)	135,236
Income taxes (benefit)	41,644	12,457	(7,159)	46,942
Net income (loss)	70,648	26,215	(8,569)	88,294
Preferred stock dividends of subsidiaries	998	—	(52)	946
Net income (loss) for common stock	69,650	26,215	(8,517)	87,348
Assets (at June 30, 2014)	5,199,841	5,418,127	(825)	10,617,143
Three months ended June 30, 2013				
Revenues from external customers	$728,519	$66,027	$21	$794,567
Intersegment revenues (eliminations)	6	—	(6)	—
Revenues	728,525	66,027	15	794,567
Income (loss) before income taxes	46,525	24,705	(7,507)	63,723
Income taxes (benefit)	17,333	8,786	(3,457)	22,662
Net income (loss)	29,192	15,919	(4,050)	41,061
Preferred stock dividends of subsidiaries	499	—	(26)	473
Net income (loss) for common stock	28,693	15,919	(4,024)	40,588
Six months ended June 30, 2013				
Revenues from external customers	$1,445,954	$130,783	$62	$1,576,799
Intersegment revenues (eliminations)	12	—	(12)	—
Revenues	1,445,966	130,783	50	1,576,799
Income (loss) before income taxes	85,072	46,457	(15,767)	115,762
Income taxes (benefit)	30,952	16,383	(6,786)	40,549
Net income (loss)	54,120	30,074	(8,981)	75,213
Preferred stock dividends of subsidiaries	998	—	(52)	946
Net income (loss) for common stock	53,122	30,074	(8,929)	74,267
Assets (at December 31, 2013)	5,087,129	5,243,824	9,091	10,340,044

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, the profit on such sales is nominal and the elimination of electric sales revenues and expenses could distort segment operating income and net income for common stock.

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, the profit on such fees is nominal and the elimination of bank fee income and expenses could distort segment operating income and net income for common stock.

3 · 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 2014 and 2013 and the six months ended June 30, 2014 and 2013 approximately $64 million, $65 million, $129 million and $129 million, respectively, of revenue taxes in "revenues" and in "taxes, other than income taxes" expense.

Recent tax developments. In September 2013, the Internal Revenue Service (IRS) issued final regulations addressing the acquisition, production and improvement of tangible property, which were effective January 1, 2014. Management does not expect the impact of these new regulations will be material to the Utilities' financial statements since specific guidance on network (i.e., transmission and distribution) assets and generation property had already been received. The IRS also proposed regulations addressing the disposition of property.

The Utilities adopted the safe harbor guidelines with respect to network assets in 2011 and in June 2013, the IRS released a revenue procedure relating to deductions for repairs of generation property, which provides some guidance (that is elective) for taxpayers that own steam or electric generation property. This guidance defines the relevant components of generation property to be used in determining whether such component expenditures should be deducted as repairs or capitalized and depreciated by taxpayers. The revenue procedure also provides an extrapolation methodology that could be used by taxpayers in determining deductions for prior years’ repairs without going back to the specific documentation of those years. The guidance does not provide specific methods for determining the repairs amount. Management intends to adopt this guidance through an election in its 2014 tax return, which is expected to result in slightly improved cash flows.

In March 2014, HEI filed with the IRS an application, which requested a change in the method of accounting for revenues recorded to the Utilities’ revenue balancing accounts (RBAs) (from an accrual basis to a billed basis) for income tax purposes. On April 28, 2014, the Utilities received approval for this change from the IRS, effective January 1, 2014. HEI will include the effects of this change in its estimated income tax payments for 2014. This change will result in improved cash flows by deferring the payment of income taxes on the RBA revenues recognized until the revenues are billed but will reduce the interest to be accrued on the RBA balance as proposed by the Consumer Advocate.

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, 2014 and December 31, 2013 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, 2014 and 2013 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 $0.1 million 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, 2014, the Utilities had six PPAs for firm capacity and several other PPAs with variable generation independent power producers (IPPs) and Schedule Q providers (i.e., customers with cogeneration and/or small power production facilities with a capacity of 100 kilowatts (kWs) or less who buy power from or sell power to the Utilities), none of which are currently required to be consolidated as VIEs. The PPAs with AES Hawaii, Inc. (AES Hawaii), Kalaeloa Partners, L.P. (Kalaeloa), Hamakua Energy Partners, L.P. (HEP) and HPOWER comprise approximately 90% of IPP contractual firm capacity available to the Utilities. Purchases from all IPPs were as follows:

	Three months ended June 30		Six months ended June 30	
(in millions)	2014	2013	2014	2013
AES Hawaii	$36	$37	$69	$60
Kalaeloa	74	79	141	143
HEP	8	9	20	20
HPOWER	16	12	32	27
Other IPPs	54	41	91	82
Total IPPs	$188	$178	$353	$332

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, including the three largest, 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 2013, 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 additive component, with an adjustment based on changes in the Gross National Product Implicit Price Deflator, 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 term of which coincides with the PPA. The facility has been certified by the Federal Energy Regulatory Commission as a Qualifying Facility under the Public Utility Regulatory Policies Act of 1978. 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. A significant factor affecting the level of expected losses Hawaiian Electric could potentially absorb is the fact that Hawaiian Electric's exposure to fuel price variability is limited to the remaining term of the PPA as compared to the facility's remaining useful life. Although Hawaiian Electric absorbs fuel price variability for the remaining term of the PPA, 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, 2014, Hawaiian Electric's accounts payable to Kalaeloa amounted to $23 million.
Commitments and contingencies.
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.
On May 19, 2014 the Environmental Protection Agency (EPA) released 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 will be effective 60 days after they are published in the Federal Register. They will 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 the 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 Department of Health of the State of Hawaii (DOH) can determine what entrainment or impingement controls, if any, might be appropriate.
On February 16, 2012, the Federal Register published the EPA's final rule establishing the EPA's National Emission Standards for Hazardous Air Pollutants for fossil-fuel fired steam electrical generating units (EGUs). The final rule, known as the Mercury and Air Toxics Standards (MATS), applies to the 14 EGUs at Hawaiian Electric's power plants. MATS establishes the Maximum Achievable Control Technology standards for the control of hazardous air pollutants emissions from new and existing EGUs. Based on a review of the final rule and the benefits and costs of alternative compliance strategies, Hawaiian Electric has selected a MATS compliance strategy based on switching to lower emission fuels. The use of lower emission fuels will provide for MATS compliance at lower overall costs and avoid the reduction in operational flexibility imposed by emissions control equipment. Hawaiian Electric requested and received a one-year extension, resulting in a MATS compliance date of April 16, 2016. Hawaiian Electric also has pending with the EPA a Petition for Reconsideration and Stay dated April 16, 2012, and a Request for Expedited Consideration dated August 14, 2013. The submittals ask the EPA to revise an emissions standard for non-continental oil-fired EGUs on the grounds that the promulgated standard was incorrectly derived. The Petition and Request submittals to the EPA included additional data to demonstrate that the existing standard is erroneous. Hawaiian Electric has been in contact with the EPA regarding the status of its Petition and does not expect a decision before the end of 2014.
On February 6, 2013, the EPA issued a guidance document titled "Next Steps for Area Designations and Implementation of the Sulfur Dioxide National Ambient Air Quality Standard," which outlines a process that will provide the states additional flexibility and time for their development of one-hour sulfur dioxide (SO_2) National Ambient Air Quality Standard (NAAQS) implementation plans. In May 2014, the EPA published a proposed data requirements rule for states to characterize their air quality in relation to the one-hour SO_2 NAAQS. Under the proposed rule, the EPA expects to designate areas as attaining, or not attaining, the one-hour SO_2 NAAQS in December 2017 or December 2020, depending on whether the area was characterized through modeling or monitoring. Hawaiian Electric will work with the DOH in implementing the one-hour SO_2 NAAQS and in developing cost-effective strategies for NAAQS compliance, if needed.
Depending upon the specific measures required for compliance with the CWA 316(b) regulations and MATS, and the rules and guidance developed for compliance with the more stringent NAAQS, the Utilities may be required to incur material capital expenditures and other compliance costs, but such amounts and their timing are not determinable at this time. Additionally, the combined effects of these regulatory initiatives may result in a decision to retire or deactivate certain generating units earlier than anticipated.
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 and 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.

Potential Clean Air Act Enforcement. On July 1, 2013, Hawaii Electric Light and Maui Electric received a letter from the U.S. Department of Justice (DOJ) asserting potential violations of the Prevention of Significant Deterioration (PSD) and Title V requirements of the Clean Air Act involving the Hill and Kahului Power Plants. The EPA referred the matter to the DOJ for enforcement based on Hawaii Electric Light's and Maui Electric's responses to information requests in 2010 and 2012. The letter expresses an interest in resolving the matter without the issuance of a notice of violation. The parties had preliminary discussions in February 2014, and plan to continue working toward resolving the matter. Hawaii Electric Light and Maui Electric cannot currently estimate the amount or effect of a settlement, if any.

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 performed Brownfield assessments of the Site that identified environmental impacts in the subsurface. Although Maui Electric never operated at the Site and operations there had stopped four years before the merger, in 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 impacts of subsurface contaminants. 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, fuel oils, and other subsurface contaminants. In March 2012, Maui Electric accrued an additional $3.1 million (reserve balance of $3.6 million as of June 30, 2014) 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. Maui Electric received DOH and EPA comments on a draft site investigation plan for site characterization in the fourth quarter of 2013. Management concluded that these comments did not require a change to the reserve balance. Maui Electric provided written responses to the agencies' comments in March 2014, and is currently awaiting approval of those responses by both agencies prior to revising the draft site investigation plan accordingly.

Pearl Harbor sediment study. The Navy is conducting a feasibility study for the remediation of contaminated sediment in Pearl Harbor. In the course of its study, the Navy has identified elevated levels of PCBs in the sediment offshore from the Waiau Power Plant. The results of the Navy's study to date, including sampling data and possible remediation approaches, are undergoing further federal review. Hawaiian Electric is also reviewing the study in order to determine the scope of investigation needed to identify the potential source of contamination and develop appropriate remedial actions.

The Navy recently notified Hawaiian Electric of the Navy's determination that Hawaiian Electric is responsible for clean up of the area offshore of the Waiau Power Plant, and the costs incurred by the Navy to investigate the area. The Navy is asking Hawaiian Electric to engage in negotiations regarding the financing and undertaking of future response actions. The extent of the contamination, the appropriate remedial measures to address it, and Hawaiian Electric's potential responsibility for any associated costs have not yet been determined.

Global climate change and greenhouse gas emissions reduction. National and international concern 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 action by the State and to federal legislative and regulatory proposals to reduce GHG emissions.

In July 2007, 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, became law in Hawaii. On June 20, 2014, the Governor signed the final regulations required to implement Act 234 and the regulations went into effect on June 30, 2014. In general, the regulations will require affected sources that have the potential to emit GHGs in excess of established thresholds to reduce GHG emissions by 16% below 2010 emission levels by 2020. The regulations will also assess affected sources an annual fee based on tons per year of GHG emissions commencing on the effective date of the regulations, estimated to be approximately $0.4 million annually for the Utilities. The DOH GHG regulations also track the federal "Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule" (GHG Tailoring Rule, see below) and would create new thresholds for GHG emissions from new and existing stationary source facilities.

Several approaches (e.g., "cap and trade") to GHG emission reduction have been either introduced or discussed in the U.S. Congress; however, no federal legislation has yet been enacted.

On September 22, 2009, the EPA issued its Final Mandatory Reporting of Greenhouse Gases Rule, which requires that sources emitting GHGs above certain threshold levels monitor and report GHG emissions. The Utilities have submitted the required reports for 2010 through 2013 to the EPA. In December 2009, the EPA made the finding that motor vehicle GHG emissions endanger public health or welfare. Since then, the EPA has also issued rules that begin to address GHG emissions from stationary sources, like the Utilities' EGUs.

In June 2010, the EPA issued its GHG Tailoring Rule covering the permitting of new or modified stationary sources that have the potential to emit GHGs in greater quantities than the thresholds set forth in the rule, under the Prevention of

Significant Deterioration program. On June 23, 2014, the U.S. Supreme Court issued a decision that invalidated the GHG Tailoring Rule, to the extent it regulated sources based solely on their GHG emissions. It also invalidated the GHG emissions threshold for regulation. The current status of the GHG Tailoring Rule, and any further regulatory action the EPA may take in light of this recent decision, are uncertain.

On January 8, 2014, the EPA published in the Federal Register its new proposal for New Source Performance Standards for GHG from new generating units. The proposed rule on GHG from new EGUs does not apply to oil-fired combustion turbines or diesel engine generators, and is not otherwise expected to have significant impacts on the Utilities.

On June 18, 2014, the EPA published in the Federal Register its proposed rule for GHG emissions from existing power plants. The rule sets interim and final state-wide, state-specific emission performance goals, expressed as lb CO_2/MWh, that would apply to the state's affected sources. The interim goal would apply as an average over the period 2020 through 2029, with the final goal to be met by 2030. On the same date, the EPA also published a separate rule for modified and reconstructed power plants. The EPA's plan is to issue the final rules no later than June 1, 2015. Hawaiian Electric is still evaluating the proposed rules for GHG emissions from existing, modified, and reconstructed sources, and how they might relate to the recently issued State GHG rules. Hawaiian Electric will participate in the federal GHG rulemaking process, and in the implementation of the State GHG rules, to try to reconcile federal GHG regulation, state GHG regulation, and any action the EPA may take as a result of the recent U.S. Supreme Court opinion, to facilitate clear and cost-effective compliance. The Utilities will continue to evaluate the impact of proposed GHG rules and regulations as they develop. Final regulations may impose significant compliance costs, and may require reductions in fossil fuel use and the addition of renewable energy resources in excess of the requirements of the RPS law.

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, which could potentially impact coastal and other low-lying areas (where much of the Utilities' electric infrastructure is sited), and could cause erosion of beaches, saltwater intrusion into aquifers and surface ecosystems, higher water tables and increased flooding and storm damage due to heavy rainfall. The effects of climate change on the weather (for example, floods or hurricanes), sea levels, and water 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.

The Utilities have taken, and continue to identify opportunities to take, direct action to reduce GHG emissions from their operations, including, but not limited to, 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 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 are also working with the State of Hawaii and other entities to pursue the use of liquefied natural gas as a cleaner and lower cost fuel to replace, at least in part, the petroleum oil that would otherwise be used. Management is unable to evaluate the ultimate impact on the Utilities' operations of eventual comprehensive GHG regulation. However, management believes that the various initiatives it is undertaking will provide a sound basis for managing the Utilities' carbon footprint and meeting GHG reduction goals that will ultimately emerge.

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.

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)	2014	2013
Balance, beginning of period	$43,106	$48,431
Accretion expense	643	363

Liabilities incurred	—	—
Liabilities settled	(6,052)	(1,506)
Revisions in estimated cash flows	—	(916)
Balance, end of period	$37,697	$46,372

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 revenue adjustments for certain 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 revenue adjustment mechanism (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 ROACE allowed in its most recent rate case. Decoupling provides for more timely cost recovery and earning on investments. The implementation of decoupling has resulted in an improvement in the Utilities' under-earning situation that has existed over the last several years. Prior to and during the transition to decoupling, however, the Utilities' returns have been below PUC-allowed returns.

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. The Utilities and the Consumer Advocate were named as parties to this proceeding and filed a joint statement of position that any material changes to the current decoupling mechanism should be made prospectively after 2016, unless the Utilities and the Consumer Advocate mutually agree to the change in this proceeding. The PUC granted several parties' motions to intervene. In October 2013, the PUC issued orders that bifurcated the proceeding (Schedule A and Schedule B) and identified issues and procedural schedules for both Schedules.

Schedule A issues include:

- for the RBA, the reasonableness of the interest rate related to the carrying charge of the outstanding RBA balance and whether there should be a risk sharing adjustment to the RBA;
- for the RAM, whether it is reasonable to true up all actual prior year baseline projects, which are those capital projects less than $2.5 million, at year end or implement alternative methods to calculate the RAM rate base;
- whether a risk sharing mechanism should be incorporated into the RBA;
- whether performance metrics should be determined and reported; and
- whether other factors should be considered if potential changes to existing RBA and RAM provisions are required.

Schedule B issues include:

- whether performance metrics and incentives (rewards or penalties) should be implemented to control costs and encourage the Utilities to make necessary or appropriate changes to strategic and action plans;
- whether the allocation of risk as a result of the decoupling mechanism is fairly reflected in the cost of capital allowed in rates;
- changes or alternatives to the existing RAM; and
- changes to ratemaking procedures to improve efficiency and/or effectiveness.

Oral arguments on Schedule A issues were held in January 2014. On February 7, 2014, the PUC issued a D&O on the Schedule A issues, which made certain modifications to the decoupling mechanism. Specifically, the D&O requires:

- 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.

The D&O required the Utilities to immediately investigate the possibility of deferring the payment of income taxes on the accrued amounts of decoupling revenue, and to report the results with recommendations to the PUC. The PUC reserved the right to determine in the next decoupling and rate case filings whether each Utilities' allowed income taxes should be adjusted for this change. The Utilities updated the PUC on their progress in investigating the tax treatment of the revenues included in the RBA balances and provided information to the PUC concerning the application to the IRS for an accounting methods change to recognize RBA revenues for tax purposes when amounts are billed. On April 28, 2014, the Utilities received approval for this change from the IRS, effective January 1, 2014. This change will reduce the amount of interest to be accrued on the RBA balance as proposed by the Consumer Advocate (see "Recent tax developments" above).

As required, the Utilities developed websites to present certain Schedule A performance metrics and proposed additional performance metrics. These metrics are all currently being reviewed by the PUC and, if approved, will be available to the public.

The Schedule A issues on whether it is reasonable to automatically include all actual prior year capital expenditures on baseline projects in the Rate Base RAM and whether a risk sharing mechanism should be incorporated into the RBA, particularly with respect to the PUC's concerns regarding maintaining and enhancing the Utilities' incentives to control costs and appropriately allocating risk and compensation for risk, will be addressed in the Schedule B proceedings.

On May 20, 2014, the Utilities and other parties filed their respective initial statements of position for the Schedule B issues in this proceeding. Specifically, the Utilities concluded that (1) the existing RAM provision can be modified to address concerns stated by the PUC regarding the review of baseline capital projects and the growth in plant additions, and (2) targeted incentives can be crafted to incentivize the activities identified by the PUC.

The Utilities and other parties are scheduled to file their respective reply statements of position for Schedule B issues in September 2014. The second part of this proceeding will continue with panel hearings scheduled for October 2014. Management cannot predict the outcome of the proceedings or the ultimate impact of the proceedings on the results of operation of the Utilities.

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 also terminated the Utilities' integrated resource planning (IRP) cycle, including the filing of a mid-cycle evaluation report, and formally concluded the IRP advisory group. The PUC directed each of Hawaiian Electric and Maui Electric to file within 120 days its respective Power Supply Improvement Plans (PSIPs). The PSIPs will be reviewed by the PUC in a new docket. The PUC also directed the Utilities to file within 90 days an integrated Demand Response Portfolio Plan. The Utilities' Plan was filed in July 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 (KIUC)) 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 to be filed within 120 days.
- Plan to implement an on-going distribution circuit monitoring program to measure real-time voltage and other power quality parameters to be filed within 60 days. The plan shall achieve full implementation of the distribution circuit monitoring program within 180 days. The Utilities' Plan was filed in June 2014.
- Action Plan for improving efficiencies in the interconnection requirements studies to be filed within 30 days. The Utilities' Plan was filed in May 2014.
- The Utilities are to file monthly reports providing details about interconnection requirements studies.
- Proposal to implement an integrated interconnection queue for each distribution circuit for each island grid to be filed within 120 days.

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 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 within 90 days an integrated Demand Response Portfolio Plan that will enhance system operations and reduce costs to customers. The Utilities'

Plan was filed in July 2014.
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 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 within 120 days 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.

Collectively, these orders confirm the energy policy and operational priorities that will guide the Utilities' strategies and plans going forward.

Subsequent event. In August 2014, Hawaiian Electric entered into a 15-year agreement with Fortis BC Energy Inc. (Fortis) for liquefaction capacity for liquefied natural gas (LNG) under tariffed rates approved by the British Columbia Utilities Commission. The agreement, which is subject to Hawaii PUC approval, other regulatory approvals and permits, and other conditions precedent before it becomes effective, provides for LNG liquefaction capacity purchases of 800,000 tonnes per year for the first five years, 700,000 tonnes per year for the next five years, and 600,000 tonnes per year for the last five years. Fortis must also obtain regulatory and other approvals for the agreement to become effective. The Fortis agreement is assignable and can be assigned to the selected bidder in the Utilities' RFP for the supply of containerized LNG and will help ensure that liquefaction capacity is available at pricing that management believes will lower customer bills.

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 (unaudited)
Three months ended June 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$530,991	103,544	103,916	—	(22)	$ 738,429
Expenses						
Fuel oil	195,549	31,179	43,529	—	—	270,257
Purchased power	140,805	28,170	19,348	—	—	188,323
Other operation and maintenance	68,992	14,817	14,755	—	—	98,564
Depreciation	27,300	8,976	5,317	—	—	41,593
Taxes, other than income taxes	49,949	9,757	9,918	—	—	69,624
Total expenses	482,595	92,899	92,867	—	—	668,361
Operating income	48,396	10,645	11,049	—	(22)	70,068
Allowance for equity funds used during construction	1,417	121	(151)	—	—	1,387
Equity in earnings of subsidiaries	9,859	—	—	—	(9,859)	—
Interest expense and other charges, net	(11,553)	(2,852)	(2,469)	—	22	(16,852)
Allowance for borrowed funds used during construction	535	47	(59)	—	—	523
Income before income taxes	48,654	7,961	8,370	—	(9,859)	55,126
Income taxes	14,154	2,982	3,261	—	—	20,397
Net income	34,500	4,979	5,109	—	(9,859)	34,729
Preferred stock dividends of subsidiaries	—	133	96	—	—	229
Net income attributable to Hawaiian Electric	34,500	4,846	5,013	—	(9,859)	34,500
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income for common stock	$34,230	4,846	5,013	—	(9,859)	$ 34,230

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Comprehensive Income (unaudited)
Three months ended June 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$34,230	4,846	5,013	—	(9,859)	$ 34,230
Other comprehensive income, net of taxes:						
Retirement benefit plans:						
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	2,588	292	292	—	(584)	2,588
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(2,575)	(292)	(292)	—	584	(2,575)
Other comprehensive income, net of taxes	13	—	—	—	—	13
	$34,243	4,846	5,013	—	(9,859)	$ 34,243

Comprehensive income attributable to common shareholder

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Income (unaudited)
Three months ended June 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$521,576	106,361	100,627	—	(39)	$ 728,525
Expenses						
Fuel oil	203,379	33,569	52,330	—	—	289,278
Purchased power	135,271	29,278	13,895	—	—	178,444
Other operation and maintenance	68,558	14,477	11,361	1	—	94,397
Depreciation	25,001	8,547	5,042	—	—	38,590
Taxes, other than income taxes	49,357	9,965	9,519	—	—	68,841
Total expenses	481,566	95,836	92,147	1	—	669,550
Operating income (loss)	40,010	10,525	8,480	(1)	(39)	58,975
Allowance for equity funds used during construction	1,247	192	121	—	—	1,560
Equity in earnings of subsidiaries	8,667	—	—	—	(8,667)	—
Interest expense and other charges, net	(9,250)	(2,791)	(2,406)	—	39	(14,408)
Allowance for borrowed funds used during construction	342	43	13	—	—	398
Income (loss) before income taxes	41,016	7,969	6,208	(1)	(8,667)	46,525
Income taxes	12,053	2,956	2,324	—	—	17,333
Net income (loss)	28,963	5,013	3,884	(1)	(8,667)	29,192
Preferred stock dividends of subsidiaries	—	133	96	—	—	229
Net income (loss) attributable to Hawaiian Electric	28,963	4,880	3,788	(1)	(8,667)	28,963
Preferred stock dividends of Hawaiian Electric	270	—	—	—	—	270
Net income (loss) for common stock	$28,693	4,880	3,788	(1)	(8,667)	$ 28,693

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Comprehensive Income (Loss) (unaudited)
Three months ended June 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income (loss) for common stock	$28,693	4,880	3,788	(1)	(8,667)	$ 28,693
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	5,016	681	622	—	(1,303)	5,016
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(4,999)	(680)	(623)	—	1,303	(4,999)
	17	1	(1)	—	—	17

Other comprehensive income (loss), net of taxes						
Comprehensive income (loss) attributable to common shareholder	$28,710	4,881	3,787	(1)	(8,667)	$ 28,710

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Income (unaudited)
Six months ended June 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$1,043,446	208,475	206,609	—	(39)	$1,458,491
Expenses						
Fuel oil	399,096	62,679	94,782	—	—	556,557
Purchased power	264,774	57,661	30,804	—	—	353,239
Other operation and maintenance	127,507	28,864	30,799	—	—	187,170
Depreciation	54,601	17,951	10,644	—	—	83,196
Taxes, other than income taxes	98,133	19,520	19,942	—	—	137,595
Total expenses	944,111	186,675	186,971	—	—	1,317,757
Operating income	99,335	21,800	19,638	—	(39)	140,734
Allowance for equity funds used during construction	2,889	186	(79)	—	—	2,996
Equity in earnings of subsidiaries	18,776	—	—	—	(18,776)	—
Interest expense and other charges, net	(22,040)	(5,600)	(4,974)	—	39	(32,575)
Allowance for borrowed funds used during construction	1,094	72	(29)	—	—	1,137
Income before income taxes	100,054	16,458	14,556	—	(18,776)	112,292
Income taxes	29,864	6,184	5,596	—	—	41,644
Net income	70,190	10,274	8,960	—	(18,776)	70,648
Preferred stock dividends of subsidiaries	—	267	191	—	—	458
Net income attributable to Hawaiian Electric	70,190	10,007	8,769	—	(18,776)	70,190
Preferred stock dividends of Hawaiian Electric	540	—	—	—	—	540
Net income for common stock	$69,650	10,007	8,769	—	(18,776)	$69,650

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Comprehensive Income (unaudited)
Six months ended June 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income for common stock	$69,650	10,007	8,769	—	(18,776)	$69,650
Other comprehensive income, net of taxes:						
Retirement benefit plans:						
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	5,107	636	545	—	(1,181)	5,107
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(5,085)	(636)	(545)	—	1,181	(5,085)
Other comprehensive income, net of taxes	22	—	—	—	—	22
	$69,672	10,007	8,769	—	(18,776)	$69,672

Comprehensive income attributable to common shareholder

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Income (unaudited)
Six months ended June 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Revenues	$1,028,634	212,373	205,026	—	(67)	$1,445,966
Expenses						
Fuel oil	425,346	66,505	102,527	—	—	594,378
Purchased power	246,426	59,400	25,982	—	—	331,808
Other operation and maintenance	140,976	29,365	25,868	1	—	196,210
Depreciation	49,708	17,094	10,068	—	—	76,870
Taxes, other than income taxes	97,501	19,656	19,447	—	—	136,604
Total expenses	959,957	192,020	183,892	1	—	1,335,870
Operating income (loss)	68,677	20,353	21,134	(1)	(67)	110,096
Allowance for equity funds used during construction	2,230	330	215	—	—	2,775
Equity in earnings of subsidiaries	19,652	—	—	—	(19,652)	—
Interest expense and other charges, net	(18,840)	(5,646)	(4,508)	—	67	(28,927)
Allowance for borrowed funds used during construction	910	135	83	—	—	1,128
Income (loss) before income taxes	72,629	15,172	16,924	(1)	(19,652)	85,072
Income taxes	18,967	5,605	6,380	—	—	30,952
Net income (loss)	53,662	9,567	10,544	(1)	(19,652)	54,120
Preferred stock dividends of subsidiaries	—	267	191	—	—	458
Net income (loss) attributable to Hawaiian Electric	53,662	9,300	10,353	(1)	(19,652)	53,662
Preferred stock dividends of Hawaiian Electric	540	—	—	—	—	540
Net income (loss) for common stock	$53,122	9,300	10,353	(1)	(19,652)	$53,122

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Comprehensive Income (Loss) (unaudited)
Six months ended June 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Net income (loss) for common stock	$53,122	9,300	10,353	(1)	(19,652)	$ 53,122
Other comprehensive income (loss), net of taxes:						
Retirement benefit plans:						
Less: amortization of transition obligation, prior service credit and net losses recognized during the period in net periodic benefit cost, net of tax benefits	10,347	1,440	1,279	—	(2,719)	10,347
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes	(10,312)	(1,441)	(1,279)	—	2,720	(10,312)

Other comprehensive income (loss), net of taxes	35	(1)	—	—	1	35
Comprehensive income (loss) attributable to common shareholder	$53,157	9,299	10,353	(1)	(19,651)	$ 53,157

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Balance Sheet (unaudited)
June 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consoli-dating adjustments	Hawaiian Electric Consolidated
Assets						
Property, plant and equipment						
Utility property, plant and equipment						
Land	$43,530	5,464	3,016	—	—	$52,010
Plant and equipment	3,655,958	1,147,841	1,026,924	—	—	5,830,723
Less accumulated depreciation	(1,239,994)	(465,966)	(444,953)	—	—	(2,150,913)
Construction in progress	139,149	14,669	14,462	—	—	168,280
Utility property, plant and equipment, net	2,598,643	702,008	599,449	—	—	3,900,100
Nonutility property, plant and equipment, less accumulated depreciation	4,951	82	1,531	—	—	6,564
Total property, plant and equipment, net	2,603,594	702,090	600,980	—	—	3,906,664
Investment in wholly owned subsidiaries, at equity	529,461	—	—	—	(529,461)	—
Current assets						
Cash and cash equivalents	8,106	1,754	2,759	101	—	12,720
Advances to affiliates	23,600	—	—	—	(23,600)	—
Customer accounts receivable, net	122,400	27,465	25,769	—	—	175,634
Accrued unbilled revenues, net	106,694	17,452	17,723	—	—	141,869
Other accounts receivable, net	20,095	6,415	2,052	—	(9,647)	18,915
Fuel oil stock, at average cost	123,070	12,517	25,706	—	—	161,293
Materials and supplies, at average cost	37,606	7,129	16,144	—	—	60,879
Prepayments and other	43,057	7,185	11,900	—	(251)	61,891
Regulatory assets	64,210	6,947	7,788	—	—	78,945
Total current assets	548,838	86,864	109,841	101	(33,498)	712,146
Other long-term assets						
Regulatory assets	380,993	64,159	58,548	—	—	503,700
Unamortized debt expense	6,020	1,532	1,353	—	—	8,905
Other	42,662	11,565	14,199	—	—	68,426
Total other long-term assets	429,675	77,256	74,100	—	—	581,031
Total assets	$4,111,568	866,210	784,921	101	(562,959)	$5,199,841
Capitalization and liabilities						
Capitalization						
Common stock equity	$1,618,987	278,995	250,365	101	(529,461)	$1,618,987
Cumulative preferred stock—not subject to mandatory redemption	22,293	7,000	5,000	—	—	34,293
Long-term debt, net	830,546	189,999	186,000	—	—	1,206,545
Total capitalization	2,471,826	475,994	441,365	101	(529,461)	2,859,825
Current liabilities						
Current portion of long-term debt	—	11,400	—	—	—	11,400
Short-term borrowings from non-affiliates	102,989	—	—	—	—	102,989

Short-term borrowings from affiliate	—	3,400	20,200	—	(23,600)	—
Accounts payable	114,803	18,434	20,506	—	—	153,743
Interest and preferred dividends payable	14,827	4,177	2,755	—	(8)	21,751
Taxes accrued	150,709	33,058	32,858	—	(251)	216,374
Regulatory liabilities	453	—	336	—	—	789
Other	49,370	9,391	15,447	—	(9,639)	64,569
Total current liabilities	433,151	79,860	92,102	—	(33,498)	571,615
Deferred credits and other liabilities						
Deferred income taxes	399,826	84,147	73,083	—	—	557,056
Regulatory liabilities	240,533	79,990	33,668	—	—	354,191
Unamortized tax credits	48,386	14,668	14,659	—	—	77,713
Defined benefit pension and other postretirement benefit plans liability	195,599	26,952	30,234		—	252,785
Other	57,397	13,821	13,059	—	—	84,277
Total deferred credits and other liabilities	941,741	219,578	164,703	—	—	1,326,022
Contributions in aid of construction	264,850	90,778	86,751	—	—	442,379
Total capitalization and liabilities	$4,111,568	866,210	784,921	101	(562,959)	$5,199,841

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Balance Sheet (unaudited)
December 31, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consoli-dating adjustments	Hawaiian Electric Consolidated
Assets						
Property, plant and equipment						
Utility property, plant and equipment						
Land	$43,407	5,460	3,016	—	—	$51,883
Plant and equipment	3,558,569	1,136,923	1,006,383	—	—	5,701,875
Less accumulated depreciation	(1,222,129)	(453,721)	(435,379)	—	—	(2,111,229)
Construction in progress	124,494	7,709	11,030	—	—	143,233
Utility property, plant and equipment, net	2,504,341	696,371	585,050	—	—	3,785,762
Nonutility property, plant and equipment, less accumulated depreciation	4,953	82	1,532	—	—	6,567
Total property, plant and equipment, net	2,509,294	696,453	586,582	—	—	3,792,329
Investment in wholly owned subsidiaries, at equity	523,674	—	—	—	(523,674)	—
Current assets						
Cash and cash equivalents	61,245	1,326	153	101	—	62,825
Advances to affiliates	6,839	1,000	—	—	(7,839)	—
Customer accounts receivable, net	121,282	28,088	26,078	—	—	175,448
Accrued unbilled revenues, net	107,752	17,100	19,272	—	—	144,124
Other accounts receivable, net	16,373	4,265	2,451	—	(9,027)	14,062
Fuel oil stock, at average cost	99,613	14,178	20,296	—	—	134,087
Materials and supplies, at average cost	37,377	6,883	14,784	—	—	59,044
Prepayments and other	29,798	8,334	16,140	—	(1,415)	52,857
Regulatory assets	54,979	6,931	7,828	—	—	69,738
Total current assets	535,258	88,105	107,002	101	(18,281)	712,185
Other long-term assets						
Regulatory assets	381,346	64,552	60,288	—	—	506,186
Unamortized debt expense	6,051	1,580	1,372	—	—	9,003
Other	42,163	11,270	13,993	—	—	67,426
Total other long-term assets	429,560	77,402	75,653	—	—	582,615
Total assets	$3,997,786	861,960	769,237	101	(541,955)	$5,087,129
Capitalization and liabilities						
Capitalization						
Common stock equity	$1,593,564	274,802	248,771	101	(523,674)	$1,593,564
Cumulative preferred stock—not subject to mandatory redemption	22,293	7,000	5,000	—	—	34,293
Long-term debt, net	830,547	189,998	186,000	—	—	1,206,545
Total capitalization	2,446,404	471,800	439,771	101	(523,674)	2,834,402
Current liabilities						
Current portion of long-term debt	—	11,400	—	—	—	11,400
Short-term borrowings from affiliate	1,000	—	6,839	—	(7,839)	—
Accounts payable	145,062	24,383	20,114	—	—	189,559

Interest and preferred dividends payable	15,190	3,885	2,585	—	(8)	21,652
Taxes accrued	175,790	37,899	37,171	—	(1,415)	249,445
Regulatory liabilities	1,705	—	211	—	—	1,916
Other	48,443	9,033	15,424	—	(9,019)	63,881
Total current liabilities	387,190	86,600	82,344	—	(18,281)	537,853
Deferred credits and other liabilities						
Deferred income taxes	359,621	79,947	67,593	—	—	507,161
Regulatory liabilities	235,786	76,475	35,122	—	—	347,383
Unamortized tax credits	44,931	14,245	14,363	—	—	73,539
Defined benefit pension and other postretirement benefit plans liability	202,396	28,427	31,339	—	—	262,162
Other	63,374	14,703	13,658	—	—	91,735
Total deferred credits and other liabilities	906,108	213,797	162,075	—	—	1,281,980
Contributions in aid of construction	258,084	89,763	85,047	—	—	432,894
Total capitalization and liabilities	$3,997,786	861,960	769,237	101	(541,955)	$5,087,129

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Changes in Common Stock Equity (unaudited)
Six months ended June 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Balance, December 31, 2013	$1,593,564	274,802	248,771	101	(523,674)	$1,593,564
Net income for common stock	69,650	10,007	8,769	—	(18,776)	69,650
Other comprehensive income, net of taxes	22	—	—	—	—	22
Common stock dividends	(44,246)	(5,813)	(7,175)	—	12,988	(44,246)
Common stock issuance expenses	(3)	(1)	—	—	1	(3)
Balance, June 30, 2014	$1,618,987	278,995	250,365	101	(529,461)	$1,618,987

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Changes in Common Stock Equity (unaudited)
Six months ended June 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Balance, December 31, 2012	$1,472,136	268,908	228,927	104	(497,939)	$1,472,136
Net income (loss) for common stock	53,122	9,300	10,353	(1)	(19,652)	53,122
Other comprehensive income (loss), net of taxes	35	(1)	—	—	1	35
Common stock dividends	(40,789)	(7,194)	(7,008)	—	14,202	(40,789)
Balance, June 30, 2013	$1,484,504	271,013	232,272	103	(503,388)	$1,484,504

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Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Cash Flows (unaudited)
Six months ended June 30, 2014

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income	$70,190	10,274	8,960	—	(18,776)	$70,648
Adjustments to reconcile net income to net cash provided by operating activities:						
Equity in earnings of subsidiaries	(18,826)	—	—	—	18,776	(50)
Common stock dividends received from subsidiaries	13,038	—	—	—	(12,988)	50
Depreciation of property, plant and equipment	54,601	17,951	10,644	—	—	83,196
Other amortization	554	1,299	1,744	—	—	3,597
Increase in deferred income taxes	34,976	4,478	5,932	—	—	45,386
Change in tax credits, net	3,482	434	311	—	—	4,227
Allowance for equity funds used during construction	(2,889)	(186)	79	—	—	(2,996)
Change in cash overdraft	—	—	(1,038)	—	—	(1,038)
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	(4,840)	(1,527)	708	—	620	(5,039)
Decrease (increase) in accrued unbilled revenues	1,058	(352)	1,549	—	—	2,255
Decrease (increase) in fuel oil stock	(23,457)	1,661	(5,410)	—	—	(27,206)
Increase in materials and supplies	(229)	(246)	(1,360)	—	—	(1,835)
Increase in regulatory assets	(15,893)	(1,640)	(198)	—	—	(17,731)
Decrease in accounts payable	(54,777)	(5,621)	(2,908)	—	—	(63,306)
Change in prepaid and accrued income and utility revenue taxes	(33,867)	(3,709)	(694)	—	—	(38,270)
Decrease in defined benefit pension and other postretirement benefit plans liability	(281)	—	(217)	—	—	(498)
Change in other assets and liabilities	(19,897)	(2,586)	(3,155)	—	(620)	(26,258)
Net cash provided by operating activities	2,943	20,230	14,947	—	(12,988)	25,132
Cash flows from investing activities						
Capital expenditures	(104,710)	(20,567)	(20,457)	—	—	(145,734)
Contributions in aid of construction	8,520	2,493	2,196	—	—	13,209
Advances from (to) affiliates	(16,761)	1,000	—	—	15,761	—
Net cash used in investing activities	(112,951)	(17,074)	(18,261)	—	15,761	(132,525)
Cash flows from financing activities						
Common stock dividends	(44,246)	(5,813)	(7,175)	—	12,988	(44,246)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(540)	(267)	(191)	—	—	(998)
	101,989	3,400	13,361	—	(15,761)	102,989

Net increase in short-term borrowings from non-affiliates and affiliate with original maturities of three months or less						
Other	(334)	(48)	(75)	—	—	(457)
Net cash provided by (used in) financing activities	56,869	(2,728)	5,920	—	(2,773)	57,288
Net increase (decrease) in cash and cash equivalents	(53,139)	428	2,606	—	—	(50,105)
Cash and cash equivalents, beginning of period	61,245	1,326	153	101	—	62,825
Cash and cash equivalents, end of period	$8,106	1,754	2,759	101	—	$12,720

Hawaiian Electric Company, Inc. and Subsidiaries
Consolidating Statement of Cash Flows (unaudited)
Six months ended June 30, 2013

(in thousands)	Hawaiian Electric	Hawaii Electric Light	Maui Electric	Other subsidiaries	Consolidating adjustments	Hawaiian Electric Consolidated
Cash flows from operating activities						
Net income (loss)	$53,662	9,567	10,544	(1)	(19,652)	$54,120
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Equity in earnings of subsidiaries	(19,702)	—	—	—	19,652	(50)
Common stock dividends received from subsidiaries	14,227	—	—	—	(14,202)	25
Depreciation of property, plant and equipment	49,708	17,094	10,068	—	—	76,870
Other amortization	(160)	716	2,328	—	—	2,884
Increase in deferred income taxes	27,560	5,584	5,636	—	—	38,780
Change in tax credits, net	2,598	70	329	—	—	2,997
Allowance for equity funds used during construction	(2,230)	(330)	(215)	—	—	(2,775)
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	35,431	(2,281)	(318)	—	(579)	32,253
Decrease (increase) in accrued unbilled revenues	(2,095)	(2,848)	54	—	—	(4,889)
Decrease (increase) in fuel oil stock	38,428	5,812	(266)	—	—	43,974
Increase in materials and supplies	(4,069)	(1,480)	(1,590)	—	—	(7,139)
Increase in regulatory assets	(25,647)	(4,852)	(7,087)	—	—	(37,586)
Decrease in accounts payable	(36,971)	(2,513)	(1,750)	—	—	(41,234)
Change in prepaid and accrued income and utility revenue taxes	(25,831)	(6,171)	(6,121)	—	—	(38,123)
Increase (decrease) in defined benefit pension and other postretirement benefit plans liability	1,163	(128)	(46)	—	—	989
Change in other assets and liabilities	(12,731)	(3,171)	5,929	—	579	(9,394)
Net cash provided by (used in) operating activities	93,341	15,069	17,495	(1)	(14,202)	111,702
Cash flows from investing activities						
Capital expenditures	(104,846)	(22,367)	(23,038)	—	—	(150,251)
Contributions in aid of construction	11,924	4,270	994	—	—	17,188
Other	623	—	—	—		623
Advances from (to) affiliates	(8,600)	8,450	—	—	150	—
Net cash used in investing activities	(100,899)	(9,647)	(22,044)	—	150	(132,440)
Cash flows from financing activities						
Common stock dividends	(40,789)	(7,194)	(7,008)	—	14,202	(40,789)
Preferred stock dividends of Hawaiian Electric and subsidiaries	(540)	(267)	(191)	—	—	(998)
Net increase in short-term borrowings from non-affiliates and affiliate with	45,542	—	8,600	—	(150)	53,992

original maturities of three months or less						
Other	(6)	(1)	(2)	—	—	(9)
Net cash provided by (used in) financing activities	4,207	(7,462)	1,399	—	14,052	12,196
Net decrease in cash and cash equivalents	(3,351)	(2,040)	(3,150)	(1)	—	(8,542)
Cash and cash equivalents, beginning of period	8,265	5,441	3,349	104	—	17,159
Cash and cash equivalents, end of period	$4,914	3,401	199	103	—	$8,617

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4 · Bank segment
Selected financial information
American Savings Bank, F.S.B.
Statements of Income Data

(in thousands)	Three months ended June 30 2014	Three months ended June 30 2013	Six months ended June 30 2014	Six months ended June 30 2013
Interest and dividend income				
Interest and fees on loans	$43,851	$43,624	$87,533	$86,227
Interest and dividends on investment and mortgage-related securities	2,950	3,234	5,985	6,698
Total interest and dividend income	46,801	46,858	93,518	92,925
Interest expense				
Interest on deposit liabilities	1,237	1,296	2,462	2,608
Interest on other borrowings	1,420	1,178	2,825	2,342
Total interest expense	2,657	2,474	5,287	4,950
Net interest income	44,144	44,384	88,231	87,975
Provision (credit) for loan losses	1,021	(959)	2,016	899
Net interest income after provision (credit) for loan losses	43,123	45,343	86,215	87,076
Noninterest income				
Fees from other financial services	5,217	7,996	10,345	15,639
Fee income on deposit liabilities	4,645	4,433	9,066	8,747
Fee income on other financial products	2,064	1,780	4,354	3,574
Mortgage banking income	246	2,003	874	5,349
Gain on sale of securities	—	1,226	2,847	1,226
Other income, net	1,643	1,731	3,231	3,323
Total noninterest income	13,815	19,169	30,717	37,858
Noninterest expense				
Compensation and employee benefits	19,872	20,063	40,158	40,151
Occupancy	4,489	4,219	8,442	8,342
Data processing	2,971	2,827	6,031	5,814
Services	2,855	2,328	5,128	4,431
Equipment	1,609	1,870	3,254	3,644
Other expense	8,094	8,500	15,247	16,095
Total noninterest expense	39,890	39,807	78,260	78,477
Income before income taxes	17,048	24,705	38,672	46,457
Income taxes	5,372	8,786	12,457	16,383
Net income	$11,676	$15,919	$26,215	$30,074

American Savings Bank, F.S.B.
Statements of Comprehensive Income Data

(in thousands)	Three months ended June 30 2014	Three months ended June 30 2013	Six months ended June 30 2014	Six months ended June 30 2013
Net income	$11,676	$15,919	$26,215	$30,074
Other comprehensive income (loss), net of taxes:				
Net unrealized gains (losses) on securities:				
Net unrealized gains (losses) on securities arising during the period, net of (taxes) benefits of ($1,679), $5,485, ($3,343) and $6,032 for the respective periods	2,543	(8,307)	5,063	(9,135)
	—	(738)	(1,715)	(738)

Less: reclassification adjustment for net realized gains included in net income, net of taxes of nil, $488, $1,132 and $488 for the respective periods				
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 $142, $308, $286 and $1,732 for the respective periods	215	466	434	2,623
Other comprehensive income (loss), net of taxes	2,758	(8,579)	3,782	(7,250)
Comprehensive income	$14,434	$7,340	$29,997	$22,824

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American Savings Bank, F.S.B.
Balance Sheets Data

(in thousands)	June 30, 2014		December 31, 2013	
Assets				
Cash and cash equivalents		$174,950		$156,603
Available-for-sale investment and mortgage-related securities		549,321		529,007
Investment in stock of Federal Home Loan Bank of Seattle		80,863		92,546
Loans receivable held for investment		4,287,612		4,150,229
Allowance for loan losses		(42,372)		(40,116)
Loans receivable held for investment, net		4,245,240		4,110,113
Loans held for sale, at lower of cost or fair value		956		5,302
Other		284,607		268,063
Goodwill		82,190		82,190
Total assets		$5,418,127		$5,243,824
Liabilities and shareholder’s equity				
Deposit liabilities—noninterest-bearing		$1,301,758		$1,214,418
Deposit liabilities—interest-bearing		3,223,102		3,158,059
Other borrowings		242,455		244,514
Other		116,953		105,679
Total liabilities		4,884,268		4,722,670
Commitments and contingencies (see “Litigation” below)				
Common stock		337,262		336,054
Retained earnings		205,012		197,297
Accumulated other comprehensive loss, net of tax benefits				
Net unrealized losses on securities	$(315)		$(3,663)	
Retirement benefit plans	(8,100)	(8,415)	(8,534)	(12,197)
Total shareholder’s equity		533,859		521,154
Total liabilities and shareholder’s equity		$5,418,127		$5,243,824
Other assets				
Bank-owned life insurance		$131,959		$129,963
Premises and equipment, net		68,254		67,766
Prepaid expenses		3,878		3,616
Accrued interest receivable		13,354		13,133
Mortgage-servicing rights		11,605		11,687
Low-income housing equity investments		23,820		14,543
Real estate acquired in settlement of loans, net		1,045		1,205
Other		30,692		26,150
		$284,607		$268,063
Other liabilities				
Accrued expenses		$24,440		$19,989
Federal and state income taxes payable		38,940		37,807
Cashier’s checks		21,286		21,110
Advance payments by borrowers		9,852		9,647
Other		22,435		17,126

	$116,953	$105,679

Bank-owned life insurance is life insurance purchased by ASB on the lives of certain key employees, with ASB as the beneficiary. The insurance is used to fund employee benefits through tax-free income from increases in the cash value of the policies and insurance proceeds paid to ASB upon an insured's death.

ASB invests, as a limited partner, in Low-Income Housing Tax Credit (LIHTC) investment partnerships formed for the purpose of providing funding for affordable multifamily rental properties. These properties are rented to qualified low-income tenants, pursuant to Section 42 of the Internal Revenue Code, allowing the properties to be eligible for federal and, for some properties, state tax credits. ASB realizes a return on its investment through reductions in income tax expense that result from tax credits and the deductibility of the operating losses of these partnerships. The partnership agreements are typically structured to meet a required 15-year period of occupancy by qualified low-income tenants. ASB's maximum exposure to loss is equal to its legally binding equity commitments adjusted for recorded impairment, partnership results, and/or proportional amortization for qualifying low income housing tax credit investments, where applicable.

Other borrowings consisted of securities sold under agreements to repurchase and advances from the Federal Home Loan Bank (FHLB) of Seattle of $142 million and $100 million, respectively, as of June 30, 2014 and $145 million and $100 million, respectively, as of December 31, 2013.

Investment and mortgage-related securities portfolio.

Available-for-sale securities. The book value (amortized cost), gross unrealized gains and losses, estimated fair value and gross unrealized losses (fair value and amount by duration of time in which positions have been held in a continuous loss position) for securities held in ASB's "available-for-sale" portfolio by major security type were as follows:

(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Gross unrealized losses Less than 12 months Fair value	Amount	12 months or longer Fair value	Amount
June 30, 2014								
U.S. Treasury and federal agency obligations	$102,472	$889	$(1,332)	$102,029	$14,950	$(79)	$29,443	$(1,253)
Mortgage-related securities- FNMA, FHLMC and GNMA	447,373	6,529	(6,610)	447,292	72,721	(443)	154,149	(6,167)
Municipal bonds	—	—	—	—	—	—	—	—
	$549,845	$7,418	$(7,942)	$549,321	$87,671	$(522)	$183,592	$(7,420)
December 31, 2013								
Federal agency obligations	$83,193	$174	$(2,394)	$80,973	$70,779	$(2,394)	$—	$—
Mortgage-related securities- FNMA, FHLMC and GNMA	374,993	4,911	(10,460)	369,444	228,543	(8,819)	19,655	(1,641)
Municipal bonds	76,904	1,826	(140)	78,590	14,478	(140)	—	—
	$535,090	$6,911	$(12,994)	$529,007	$313,800	$(11,353)	$19,655	$(1,641)

The unrealized losses on ASB's investments in mortgage-related securities and obligations issued by federal agencies were caused by interest rate movements. Because ASB does not intend to sell the securities and has determined it is more likely than not that it will not be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, ASB did not consider these investments to be other-than-temporarily impaired at June 30, 2014.

The fair values of ASB's investment securities could decline if interest rates rise or spreads widen.

The following table details the contractual maturities of available-for-sale securities. All positions with variable maturities (e.g. callable debentures and mortgage-related securities) are disclosed based upon the bond's contractual maturity. Actual maturities will likely differ from these contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

June 30, 2014 (in thousands)	Amortized cost	Fair value

Due in one year or less	$—	$—
Due after one year through five years	44,492	44,538
Due after five years through ten years	32,303	32,839
Due after ten years	25,677	24,652
	102,472	102,029
Mortgage-related securities-FNMA,FHLMC and GNMA	447,373	447,292
Total available-for-sale securities	$549,845	$549,321

Allowance for loan losses. ASB maintains an allowance for loan losses that it believes is adequate to absorb losses inherent in its loan portfolio. The level of allowance for loan losses is based on a continuing assessment of existing risks in the loan portfolio, historical loss experience, changes in collateral values and current conditions (e.g., economic conditions, real estate market conditions and interest rate environment). The allowance for loan losses is allocated to loan types using both a formula-based approach applied to groups of loans and an analysis of certain individual loans for impairment. The formula-based approach emphasizes loss factors primarily derived from actual historical default and loss rates, which are combined with an assessment of certain qualitative factors to determine the allowance amounts allocated to the various loan categories. Adverse changes in any of these factors could result in higher charge-offs and provision for loan losses.

ASB disaggregates its portfolio loans into portfolio segments for purposes of determining the allowance for loan losses. Commercial and commercial real estate loans are defined as non-homogeneous loans and ASB utilizes a risk rating system for evaluating the credit quality of the loans. Loans are rated based on the degree of risk at origination and periodically thereafter, as appropriate. Values are applied separately to the probability of default (borrower risk) and loss given default (transaction risk). ASB's credit review department performs an evaluation of these loan portfolios to ensure compliance with the internal risk rating system and timeliness of rating changes.

Non-homogeneous loans are categorized into the regulatory asset quality classifications—Pass, Special Mention, Substandard, Doubtful, and Loss based on credit quality. For loans classified as substandard, an analysis is done to determine if the loan is impaired. A loan is deemed impaired when it is probable that ASB will be unable to collect all amounts due according to the contractual terms of the loan agreement. Once a loan is deemed impaired, ASB applies a valuation methodology to determine whether there is an impairment shortfall. The measurement of impairment may be based on (i) the present value of the expected future cash flows of the impaired loan discounted at the loan's original effective interest rate, (ii) the observable market price of the impaired loan, or (iii) the fair value of the collateral, net of costs to sell. For all loans collateralized by real estate whose repayment is dependent on the sale of the underlying collateral property, ASB measures impairment by utilizing the fair value of the collateral, net of costs to sell; for other loans that are not considered collateral dependent, generally the discounted cash flow method is used to measure impairment. For loans collateralized by real estate that are classified as troubled debt restructured loans, the present value of the expected future cash flows of the loans may also be used to measure impairment as these loans are expected to perform according to their restructured terms. Impairment shortfalls are charged to the provision for loan losses and included in the allowance for loan losses. However, impairment shortfalls that are deemed to be confirmed losses (uncollectible) are charged off, with the loan written down by the amount of the confirmed loss.

Residential, consumer and credit scored business loans are considered homogeneous loans, which are typically underwritten based on common, uniform standards, and are generally classified as to the level of loss exposure based on delinquency status. The homogeneous loan portfolios are stratified into individual products with common risk characteristics and segmented into various secured and unsecured loan product types. For the homogeneous portfolio, the quality of the loan is best indicated by the repayment performance of an individual borrower. ASB does supplement performance data with an 11-risk rating retail credit model that assigns a probability of default to each borrower based primarily on the borrower's current Fair Isaac Corporation (FICO) score and for the home equity line of credit (HELOC) and unsecured consumer products, the bankruptcy score (BK). Current FICO and BK data is purchased and appended to all homogeneous loans on a quarterly basis and used to estimate the borrower's probability of default and the loss given default.

ASB also considers the following qualitative factors for all loans in estimating the allowance for loan losses:

- changes in lending policies and procedures;
- changes in economic and business conditions and developments that affect the collectability of the portfolio;
- changes in the nature, volume and terms of the loan portfolio;
- changes in lending management and other relevant staff;
- changes in loan quality (past due, non-accrual, classified loans);
- changes in the quality of the loan review system;
- changes in the value of underlying collateral;
- effect of, and changes in the level of, any concentrations of credit; and

- effect of other external and internal factors.

ASB’s methodology for determining the allowance for loan losses was generally based on historic loss rates using various look-back periods. During the second quarter 2014, ASB implemented enhancements to the loss rate calculation for estimating the allowance for loan losses that included several refinements to determining the probability of default and the loss given default for the various segments of the loan portfolio that are more statistically sound than those previously employed. The result is an estimated loss rate established for each borrower. ASB also updated its measurement of the loss emergence period in the calculation of the allowance for loan losses. The loss emergence period is broadly defined as the period that it takes, on average, for the lender to identify the specific borrower and amount of loss incurred by the bank for a loan that has suffered from a loss-causing event. In most cases, the loss emergence period was within a twelve month period; however, as credit

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quality and conditions improve, management has observed that the loss emergence period has extended and has incorporated this observed change in the estimate of the allowance for loan losses. Management believes these enhancements will improve the precision in estimating the allowance for loan losses. The enhancement did not have a material effect on the total allowance for loan losses or the provision for loan losses for the second quarter 2014. The enhancement did result in the full allocation of the previously unallocated portion of the allowance for loan losses.

In conjunction with the above enhancement, management also adopted an enhanced risk rating system for monitoring and managing credit risk in the non-homogenous loan portfolios, that measures general creditworthiness at the borrower level. The numerical-based, risk rating “PD Model” takes into consideration fiscal year-end financial information of the borrower and identified financial attributes including retained earnings, operating cash flows, interest coverage, liquidity and leverage that demonstrate a strong correlation with default to assign default probabilities at the borrower level. In addition, a loss given default (LGD) value is assigned to each loan to measure loss in the event of default based on loan specific features such as collateral that mitigates the amount of loss in the event of default. Together the PD Model and LGD construct provide a more quantitative, data driven and consistent framework for measuring risk within the portfolio, on a loan by loan basis and for the ultimate collectability of each loan. Management believes its allowance for loan losses adequately estimates actual loan losses that will ultimately be incurred. However, such estimates are based on currently available information and historical experience, and future adjustments may be required from time to time to the allowance for loan losses based on new information and changes that occur (e.g., due to changes in economic conditions, particularly in Hawaii). Actual losses could differ from management’s estimates, and these differences and subsequent adjustments could be material.

The allowance for loan losses (balances and changes) and financing receivables were as follows:

(in thousands)	Residential 1-4 family	Commercial real estate	Home equity line of credit	Residential land	Commercial construction	Residential construction	Commercial loans	Consumer loans	Unallocated	Total
Three months ended June 30, 2014										
Allowance for loan losses:										
Beginning balance	$ 5,475	$ 5,715	$ 5,969	$ 1,575	$ 3,063	$ 24	$ 15,592	$ 2,316	$ 1,194	$40,923
Charge-offs	(94)	—	(136)	(47)	—	—	(246)	(461)	—	(984)
Recoveries	555	—	314	77	—	—	225	241	—	1,412
Provision	(269)	1,515	934	232	327	2	(427)	(99)	(1,194)	1,021
Ending balance	$ 5,667	$ 7,230	$ 7,081	$ 1,837	$ 3,390	$ 26	$ 15,144	$ 1,997	$ —	$42,372
Three months ended June 30, 2013										
Allowance for loan losses:										
Beginning balance	$ 6,011	$ 6,656	$ 4,557	$ 2,743	$ 1,872	$ 12	$ 14,963	$ 3,655	$ 2,261	$42,730
Charge-offs	(846)	—	(68)	(8)	—	—	(924)	(759)	—	(2,605)
Recoveries	1,033	—	62	363	—	—	220	160	—	1,838
Provision	159	(2,539)	458	(911)	433	2	2,048	(657)	48	(959)
Ending balance	$ 6,357	$ 4,117	$ 5,009	$ 2,187	$ 2,305	$ 14	$ 16,307	$ 2,399	$ 2,309	$41,004
Six months ended June 30, 2014										
Allowance for loan losses:										
Beginning balance	$ 5,534	$ 5,059	$ 5,229	$ 1,817	$ 2,397	$ 19	$ 15,803	$ 2,367	$ 1,891	$40,116
Charge-offs	(360)	—	(136)	(53)	—	—	(370)	(1,022)	—	(1,941)
Recoveries	896	—	325	163	—	—	325	472	—	2,181
Provision	(403)	2,171	1,663	(90)	993	7	(614)	180	(1,891)	2,016
Ending balance	$ 5,667	$ 7,230	$ 7,081	$ 1,837						