

2004 Strategic Accomplishments



Equity Management Plan

KIUC developed an Equity Management Plan in 2004 as part of a process to determine the optimum mix between:

- a) equity retained by the cooperative to build financial stability and,
- b) equity returned to members in the form of patronage capital refunds or other mechanisms to address the high cost of electricity on Kauai.

The initial product of an ongoing process, the 2004 Equity Management Plan (EMP) has been developed to provide a comprehensive overview and discussion of the financial planning for KIUC. It includes a discussion of the history, regulatory issues, and lender requirements that impact KIUC's financial policies and resulting projected financial performance.

The 2004 Equity Management reflects implementing the following activities, the compilation of which provides a financial performance that addresses the objectives of KIUC's principal constituencies

Strategic Initiatives KIUC will continue energy conservation programs and other strategic directions as expressed by members through Focus Groups and surveys.

Patronage Capital Refunds KIUC is assumed to continue to pay 25% of the prior year's margins in patronage capital refunds through 2010.

Revised Depreciation Accrual Rates KIUC is assumed to implement the revised depreciation accrual rates from the depreciation study as of June 30, 2005.

Elimination of Lost Gross Margin Collections KIUC is assumed to eliminate the Lost Gross Margin ("LGM") component of the RCA surcharge beginning as of June 30, 2005.

Renewable Energy and Efficiency Investments KIUC is assumed to invest \$18.0 million by 2012 in renewable generation and an additional \$21.0 million to improve the efficiency of the existing generation units.

Debt Prepayment KIUC is assumed to prepay RUS debt through 2012 by as much as \$21.0 million.

IRP Framework

As a regulated electric utility in Hawaii, KIUC is required to periodically develop an Integrated Resource Plan (IRP). The IRP is the result of a process that compares supply-side (i.e. generation) to demand-side (i.e. energy efficiency/conservation/load management) options to determine which options are best to serve the electrical energy needs of KIUC's consumers. The IRP Framework contains the guidelines that determine the evaluation criteria.

Soon after becoming a member owned electric cooperative, KIUC realized that the guidelines in the existing IRP Framework would not allow KIUC to develop an IRP that fully represented KIUC's member/owner's needs and desires. As such, KIUC developed and submitted to the PUC for their approval, a "Co-op" Integrated Resource Plan Framework. The intent was to be allowed to use guidelines reflecting KIUC's cooperative ownership structure. PUC approval is expected in third quarter 2005. In the meantime, KIUC is beginning to develop the parts of the IRP that are independent of the framework. These include load and fuel forecasts, selecting an Advisory Panel, selecting a consultant and developing a benchmarked base year from which forecasted data will be applied. The IRP is expected to be complete in early 2006.

Renewable Generation Research

KIUC initiated a comprehensive study in 2004 to evaluate the technical and economic feasibility of renewable generation on the island of Kauai. The first phase of the project was to evaluate all potential renewable technologies and, based upon a scoring matrix, identify the top five for a more in depth evaluation in the study's second phase. The five technologies are, in alphabetic order, Biomass (direct burn of vegetation grown solely for that purpose), Hydro, Landfill gas (burning the methane by-product), Municipal Solid Waste incineration (burn the garbage that otherwise goes into the landfill), and Wind Turbines.