

Messages from the CEO and Chairman of the Board

Aloha KIUC Members,

The employees, board of directors, and you, the membership, are continuing to work towards our goal of making the first cooperative in Hawaii a success. Once again, KIUC has returned to its member-owners, \$3.1 million of patronage capital and an additional \$1 million distribution from the KPS power plant purchase for a total of \$4.1 million. KIUC is unique in the co-op world in that a patronage capital refund from a newly formed co-op is unusual. It is KIUC's management and board of directors' goal to continue these refunds as we forge on to control our own destiny.

As you all are aware, our cost of supplying electrical energy to our membership is directly related to the oil industry, and the price of oil continues to rise with little or no relief in sight. To counter this uncontrollable expense, we must utilize every avenue of renewable options available to us. We have recently completed our review of a study outlining what would best serve KIUC's member requirements, and have begun the task of appraising the most appropriate scenarios for our community. We are staying in constant contact with other co-ops that share our dependency on petroleum, as well as the rest of the electrical industry. Our quest into renewable energy resources has just begun.

We will continue to investigate the possibility of wind, hydro, biomass, solar and photo voltaic. In addition, we are interested in bio-diesel, and the support crops that could and would be grown on our island. Battery Energy Storage Systems are also being addressed as possible load conditioning, peak-shaving additions that would result in cleaner electrical power as well as fuel conservation.

As part of our vision, KIUC must ensure we are responsive to the needs and requirements of our member-owners. We hope you'll take the time to read our 2004 KIUC Annual Report or to view it online at www.kiuc.coop, and to let us know how we can better serve you in the future.

Very truly yours,

Dutch Achenbach

Dutch Achenbach
President & CEO



Aloha Membership,

Year two of your ownership brought many challenges for your company and the board of directors. We said aloha to our former CEO, Alton Miyamoto, who retired, and then we conducted a nationwide search reviewing over 100 resumés before hiring our new CEO, 40-year utility veteran, Dutch Achenbach. So please join the board in welcoming Dutch and his wife Dora to our community.



We have all seen our electric bills rise during the past two years. Your base rate for electricity usage has not changed since 1996, when crude oil was \$18 per barrel. Recently we have seen oil prices as high as \$58 per barrel. Your bill increases have gone strictly to pay for this increased fuel cost. In response, the board commissioned several feasibility studies to look at ways to reduce our cost of fuel and our dependence on oil.

First, we commissioned an engineering study to look at energy efficiency for our main Port Allen combustion turbine to determine if replacing it with a new energy-efficient model would be a benefit to the membership. The decision will be made based on the replacement's compatibility with our long-term Integrated Resource Planning now underway.

Next, we are in the process of finishing a study on additional storage facilities for fuel which could provide us with buying options from more than one source so opportunities for competition could help reduce our overall fuel cost.

Finally, we commissioned a renewable energy study looking at wind, hydro, photovoltaic, wave energy, biomass/coal and bio diesel as potential options specifically for the island of Kauai to help us reduce our oil dependency. In addition, we are looking at storage technology to help stabilize our system as we bring on incremental daily demand both in terms of energy savings and power quality issues. The renewable energy study is on our website www.kiuc.coop, and the battery study should be completed by early June. We will then set up a series of member meetings in various communities to share with our membership the options available to our island, as we work together toward directing our energy future.

On a sad note, one of our first-elected directors, Abel Medeiros, passed away in April. We appreciate his contribution in KIUC's first operating year, and he will be missed. During our last election in March the membership elected two new directors, Peter Yukimura and Teofilo "Phil" Tacbian. We welcome these new directors who are already working hard on your behalf. I'm also happy to report that the directors who have been on the board for more than a year, Ron Kouchi, Saburo Yoshioka, Susan Stayton, Dee Crowell, Raymond Paler and Jim Mayfield have all completed their Certified Credentialed Directors training, have passed the national testing requirements and have been certified by the National Rural Electric Cooperative Association.

In closing, the financial reports for KIUC are exceptional with member equity at year's end at 6.20 percent enabling us within the next 30 days to return an additional \$3,148,640.25 worth of patronage capital refund checks to you, along with an additional \$1 million one-time savings from acquiring the ownership of Kauai Power Partners now known as the Kapaia Power Station.

On behalf of your board of directors I am very happy to report to our member/owners that Kauai Island Utility Cooperative is in fine financial health.

Sincerely,

Gregg Gardiner

Gregg Gardiner
Chairman of the Board
Kauai Island Utility Cooperative

KIUC Box Score:

2004 Total Margins (profits) from operations	\$12,594,561
2004 Total Margins to be Returned to Membership	\$3,148,640
Special One-Time Refund*	\$1,000,000
Total Member Equity (2 years)	\$17,754,770
Total Member Equity (2 years) as a percent	6.20%
System Improvement Projects in 2004	\$9,721,818
Balance in Line of Credit facilities at 12/31/2004	0
Fuel Saved by Improved Efficiencies (Kapaia Power Station purchase, operational efficiency improvements, including hydro's)	3,818,781 gallons

*KPS purchase