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ANNUAL REPORT 1947

The Hawaiian Electric Company, Limited



THE HAWAIIAN ELECTRIC CO., LTD.
 900 RICHARDS STREET (PALACE SQUARE)
Honolulu, Hawaii



57TH ANNUAL REPORT

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1947

*Cover photograph is an air-view showing
 our downtown Honolulu Power Plant at
 top of picture and our Main Office Build-
 ing at the bottom.*

BOARD OF DIRECTORS

J. BALLARD AHERTON	L. A. HICKS	P. E. SPALDING
L. A. BUESE	GASKELL S. JACOBS*	L. A. HICKS
T. A. COOKE	RALPH B. JOHNSON	GASKELL S. JACOBS*
GERARD W. FISHER	E. J. RAINALTER	L. A. BUESE
	H. M. RICHARDS	RALPH B. JOHNSON
		PAUL H. ANDERSON
		PAUL H. ANDERSON
		C. E. NOLAN
		H. P. FIELD
		C. J. SCHIFFERS
		GEORGE HOGG
		F. W. S. MACKENZIE
		G. M. WINSLEY
		HENRY DAVIS AUDIT COMPANY

OFFICERS

P. E. SPALDING	Chairman of the Board
L. A. HICKS	Vice-President and Treasurer
GASKELL S. JACOBS*	Vice-President and Executive Secretary
L. A. BUESE	Vice-President and Secretary
RALPH B. JOHNSON	Vice-President
PAUL H. ANDERSON	Vice-President
C. E. NOLAN	Vice-President and Assistant Secretary
H. P. FIELD	Vice-President
C. J. SCHIFFERS	Vice-President and Assistant Treasurer
GEORGE HOGG	Assistant Treasurer
F. W. S. MACKENZIE	Assistant Treasurer
G. M. WINSLEY	Assistant Treasurer
HENRY DAVIS AUDIT COMPANY	Auditors

* Resigned as of December 31, 1947

President's Remarks

The Management of The Hawaiian Electric Company, Limited presents herewith the report of its operations for the year 1947 for the information of its stockholders, employees and customers.

Heretofore reports have been purely factual presentations for the information of stockholders. Recognizing the ever widening spread of stock ownership in the hands of small investors, the increasing interest of the more than 1300 employees whose numbers are steadily growing and the rapidly expanding scope of our service (expanding at the rate of 400 consumers per month) to 65,000 consumers in every last nook of Oahu, the report this year is directed to the broad field of interest that concerns every resident of the community in which he lives. To this end we have tried to make this report as interesting and readable as possible.

The money facts are presented not only in the usual approved accounting form, but also in graphs and charts to make them more easily understood by everyone. For the average employee there will perhaps be some new discoveries about the company for which he works and for our customers a better understanding of the men and women and the physical equipment that make HECO service click. This service is what the thought and effort of 1300 employees make it. Pride in past performance should serve only to strengthen our determination to build larger and better in the future. We ask for public approval only in proportion to service rendered.

Sincerely yours,

L. A. Hicks

March 30, 1948



The Main Office Building



1947

REVIEW OF THE YEAR'S ACTIVITIES

1947 was a year of intense demand for electrical appliances, apparatus and services. Merchandise and construction materials were in better supply and as a result, our Wholesale Supply Department did a record volume of business, \$5,815,399 worth, and we connected 4,696 new services to our lines. The number of proposals for new electric service increased approximately 50% over 1946 and during the year we handled 8,299 such requests. We are still greatly handicapped by lack of meters and meter sockets. At year's end we had 1,198 customers connected without meters.

Due to the closing down of Waimanalo Sugar Company and Wai-anae Plantation Company, and the change in operations at Honolulu Plantation Company, we took over approximately 1,000 new residential accounts in these areas.

Army and Navy electric consumption continued its decline, the Army by 12.96% and the Navy by 25.26%. The last of the electric dredging operations ceased in the early part of the year with the completion of the Damon Estate pond filling.

NEAR-PEAK REVENUE

In spite of these losses in revenue, increases from other sources brought the year's total to \$9,071,379 or practically equal to the 1945 all time peak of \$9,340,729.

During the year we received \$9,205,503 from total utility operations, \$192,584 from ice and cold storage operations, \$5,815,399 from merchandise operations and \$4,548 from other sources.

UTILITY EXPENSES AND INCOME

In order to operate and maintain the utility properties and to conduct the affairs of the company, \$2,277,715 was paid for fuel oil and

\$3,383,570 for other operating expenses which included wages and salaries to employees, materials and supplies, and services. The Federal and Territorial Gross taxes charged to expense was \$1,369,944 exclusive of Social Security taxes and Automobile taxes. We set aside \$685,254 for depreciation. The total cost of operation and maintenance of our utility properties for the year was \$7,614,365, leaving a net operating income for utility operations of \$1,591,138.

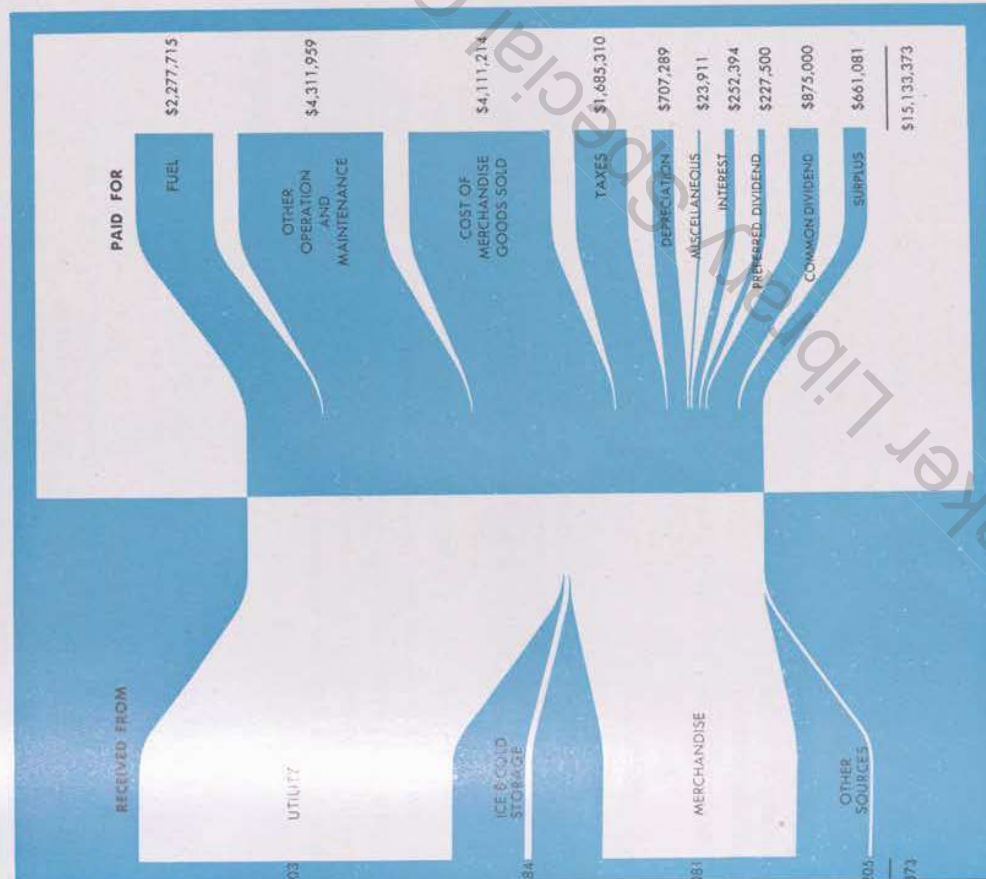
The ice and cold storage business of the company cost \$135,191 to operate and maintain. Federal and Territorial taxes amounted to \$23,958 and \$8,428 was set aside for the depreciation of these properties, making total operating and maintenance expense \$167,577 which left a net operating income of \$25,005 from these operations.

In the Merchandise Departments the cost of goods sold amounted to \$4,195,533. Operation and maintenance, including the cost of selling and handling of goods, operating and maintaining of the merchandise facilities and business amounted to \$793,196. Federal and Territorial taxes on merchandise operations amounted to \$393,526, and \$13,607 was set aside for depreciation of the merchandise plant making total operating expense of \$5,395,862. This left an operating income of \$419,538 from merchandise operations.

TOTAL NET INCOME

The operations of these three divisions of the company plus the income from other sources resulted in a gross income of \$2,040,272 out of which interest and dividends on the \$27,200,000 invested in our business by security holders was paid. The company paid the a total of \$1,516,333 for the use of this money. Of the amount paid in interest and dividends \$413,833 was paid to our bond holders \$1,102,500 to the holders of our common and preferred stock, and \$11,983 to banks for short term loans. Expenses of the corporation not chargeable directly to any division amounts to \$28,284. During

REVENUES AND EXPENSES



the year interest and taxes in the amounts of \$177,452 and \$88,726 respectively were charged to cost of Construction of plant additions, resulting in an increase in net income of \$266,178. The balance of \$661,081 was reinvested in the business, thus materially helping the company in providing cash required for the heavy construction program.

The income and expenditures mentioned above are more vividly illustrated in the chart at the left. The chart shows the utility, ice and cold storage, merchandise and other sources of income and then shows our principal items of expense which include the fuel, operation and maintenance, cost of merchandise sold, taxes, depreciation and others. The amount going to bond interest, preferred dividends, common stock dividends and surplus are also indicated.

NEW POWER LOADS

Significant trends in commercial power load were apparent from large air-conditioning installations, totalling about 1,500 H.P. and many package units of from three to five H.P. There were also notable gains from heavy duty cooking equipment installations, ranging from 25 to 80 KW in size. Much more air-conditioning and commercial cooking load is in sight for next year as equipment becomes available.

DISCONTINUANCE OF DEPOSITS

As of February 1, 1947 the company discontinued taking deposits from new residential customers and as of July 31, 1947 discontinued requiring our residential customers to sign applications for electricity, making it possible for them to order service by telephone. These changes were made in the interest of economy and improved customer relations.



PLANT AND PROPERTY EXPENDITURES

During 1947 expenditures for new plant and properties aggregated \$5,480,215.60 as follows:

Steam Production Plant	\$3,246,185.21
Transmission and Distribution Plant	1,695,318.57
General Plant	139,514.84
Merchandise Plant	112,119.85

Work in Progress:

Steam Production Plant	52,446.48
Transmission and Distribution Plant	221,766.43
General Plant	7,277.33
Merchandise Plant	5,586.89
	<u>\$5,480,215.60</u>

The expansion of the company's business in recent years has called for commensurate expenditures for new plant and properties as follows:

1943	\$ 3,040,210.19
1944	2,285,182.89
1945	2,548,394.63
1946	4,072,955.04
1947	5,480,215.60
Total for 5 years	<u>\$17,426,958.35</u>

UNIT NO. 3 - WAI'AU

The completion and the initial operation of the 40,000 kilowatt No. 3 generating unit at the Wai'au Power Plant, together with a complete circulating water system for the present unit and the new proposed unit, two fuel oil storage tanks, material warehouse, employees'

cafeteria and other accessory units of the project marked the important development of recent years at a total cost of \$7,000,000. The new equipment commenced operation on December 1, 1947 and is operating on regular schedule in a very satisfactory manner. The greatly improved efficiency of this unit in comparison with other installations will materially affect the over-all economy of the system.

WARD AVENUE

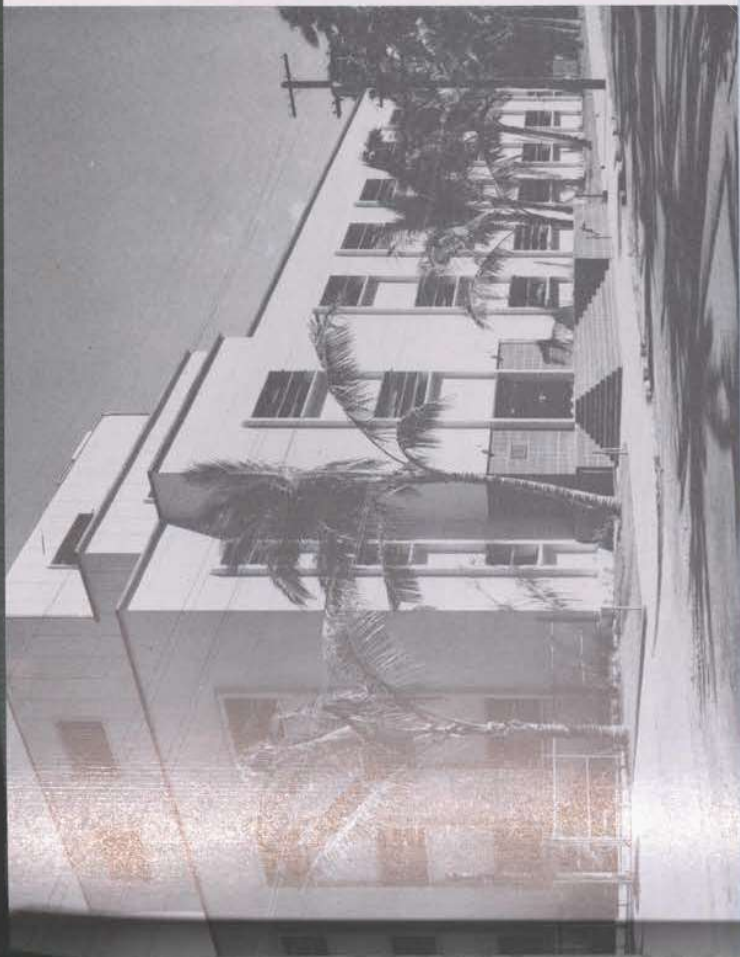
Construction of the three story and basement building on the company's Ward Avenue property to house the Engineering, Distribution, Construction, General Service and sales personnel of the Wholesale Supply Department was completed and occupied at a cost of \$920,000. Net floor area of this building is 64,293 square feet.

DISTRIBUTION SYSTEM

During the year there was constructed 5.3 miles of 11,000 volt lines 7.1 miles of 4,000 volt lines and 26.3 miles of secondary distribution lines which is a total addition of 38.7 miles to our overhead distribution system.

To the underground system, there was added 3.19 miles of 11,000 volt cable, 1.47 miles of 4,000 volt and 9.85 miles of secondary service cables for a total of 14.51 miles of cable. 322 distribution transformers, having a total capacity of 9,390 KVA, were also added.

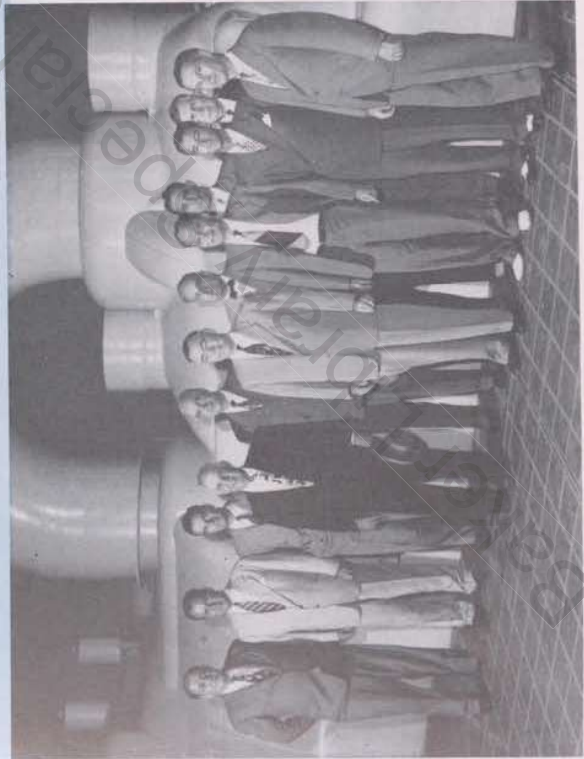
Three large unit type transformer substations were installed to take care of the increased load in Honolulu. One station was installed at Kalihi Valley, one in Manoa Valley and one in Palolo Valley. 750 KVA transformer bank was added at Archer Lane substation. Complete underground distribution systems were built in new subdivisions at Wai'alu Peninsula and Aiea Haina subdivision.



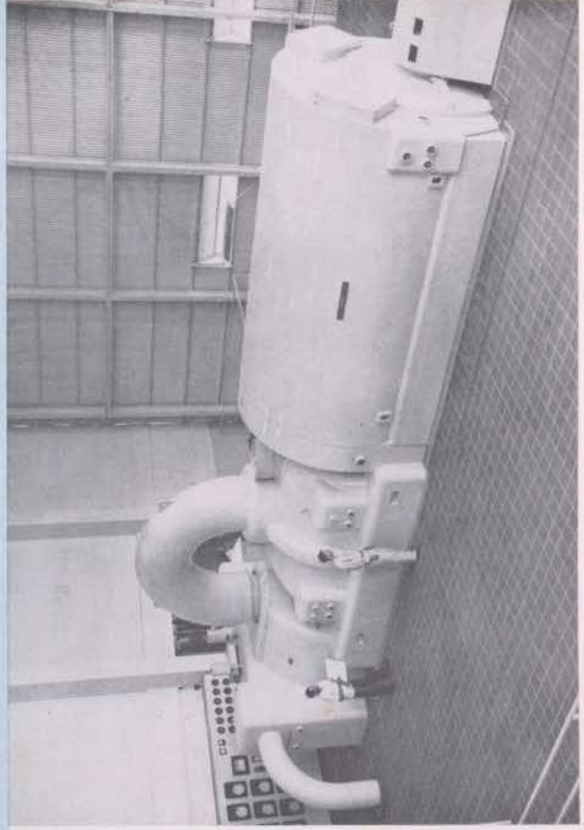
New Ward Avenue Building



Waiau Power Plant No. 1 and First Unit of Power Plant No. 2



Board of Directors inspecting new Unit at Waiau



New 40,000 kilowatt turbo-generator, Unit No. 3, Waiau

The Emma Street substation, Iwilei substation and the underground downtown distribution system served by these substations were converted from 2.3 KV to 4 KV to provide additional capacity for the rapidly growing load in this business area.

Two 450 KVA underground transformer vaults, one on Alakea near King Street and one on Fort near Hotel Street, were installed. They were needed to provide more electricity for increased lighting and air conditioning in these areas.

An overhead line was built to serve the 3,000 KW load at the new Tripler Hospital. An additional cable was installed from the Honolulu Power Plant out Beretania Street to McCully Street to provide additional capacity for the Kaimuki area.

The distribution systems at Aiea and at Waimanalo which had been operated by plantations were taken over. They are now operated by the company.

NEW OFFICES

Following the removal of the Distribution Department to the new Ward Avenue office building, the space made available in Warehouse No. 2 was renovated and rebuilt to better house the Wholesale Supply, Industrial and Appliance Maintenance and Electrical Contracting Departments. A single office was provided for the use of the latter two departments in order to effect economies and better to coordinate their efforts in the service of our customers.

After the removal of some 107 employees of the Engineering, General Service, Wholesale Supply and Contract Wiring Departments to the new Ward Avenue office building, major construction changes in the main office building at King and Richards Streets were started. These will facilitate relocation of the remaining personnel.

In the future, the fourth floor will house the executive offices, board room, general accounting offices, valuation and budget director's office, library and telephone exchange.

The third floor will have the Commercial Department—which includes the meter readers, customer accounting and customer records—the paymaster, merchandise accounting and credit and the Personnel Department.



Wholesale Supply Department Office personnel in new Ward Ave. quarter



Part of Wholesale Supply Department's sales personnel, Warehouse No. 2

On the second floor will be located the Promotion Department—which includes a new home economics auditorium—and the cafeteria. The first floor will be modified to include more merchandise display and will continue to have, as formerly, the cashiers and the Commercial Department's customer services.

The basement will house the Addressograph Division, stationery and mailing services, retail merchandise storage and building services.



UTILITY OPERATIONS

The total energy delivered into the system for the year 1947 was 3.94% greater than for the year 1946.

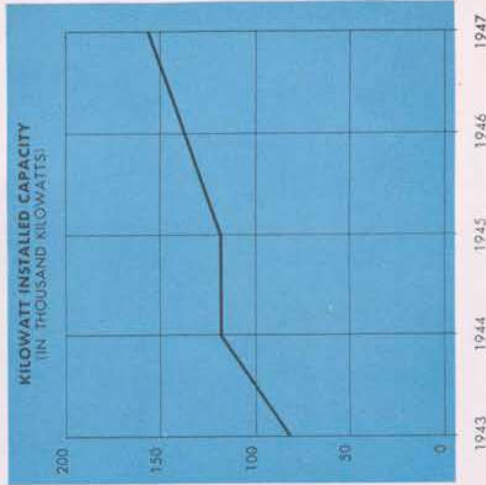
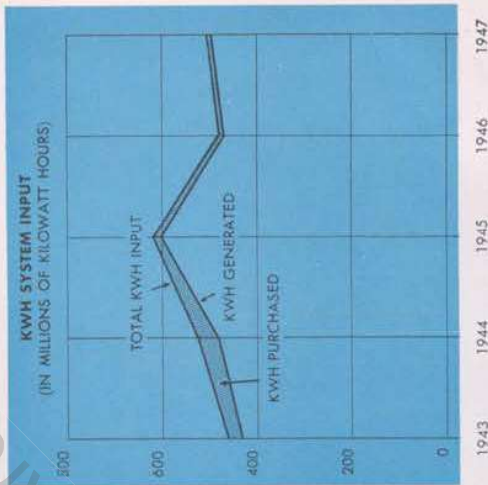
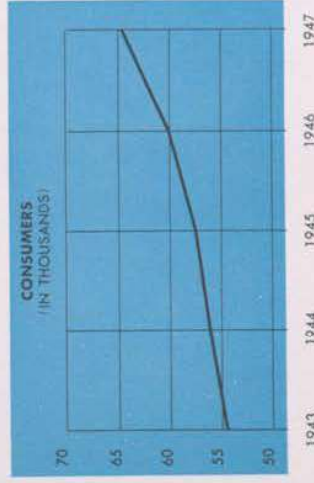
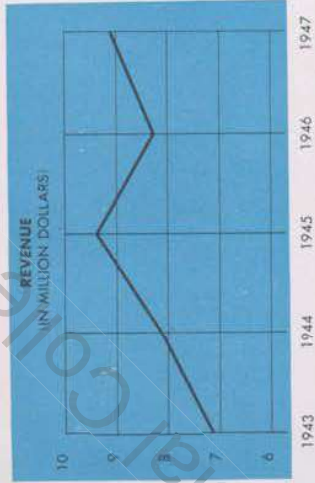
During the past five years, our net kilowatt hours generated per year increased from approximately 428,800,000 to 498,600,000 in 1947. Kilowatt hours purchased decreased from 32,700,000 to less than 6,000,000 in 1947. Kilowatt capacity at the generating stations increased from 82,500 to 157,500.

The changes over the five year period for energy production are graphically illustrated on this page.

We sold 18,000,000 more kilowatt hours in 1947 than we did in 1946 and the result was a gain of \$809,000 in gross revenue. Again, this information regarding kilowatt hours sold, gross electric sales and number of customers is more advantageously presented in the accompanying charts.

Changes in utility operating expenses during the year 1947 are shown in the following summarized statement of departmental income:

	Amount	Per cent of Operating Revenues	Increase/Decrease from 1946 Amount	Per cent
Operating Revenues	\$9,205,503	100.0	\$817,874	9.8
Operating Expenses:				
Fuel	2,277,715	24.7	341,250	17.6
Purchased Energy	10,720	0.1	4,448	29.3
Operation	2,249,080	24.4	97,665	4.5
Maintenance	1,021,655	11.1	39,120	4.0
Taxes	1,369,941	14.9	61,257	4.7
Depreciation	685,254	7.5	50,796	8.0
TOTAL Operating Expense	\$7,614,365	82.7	\$585,640	8.3
NET Operating Income	\$1,591,138	17.3	\$232,234	17.1

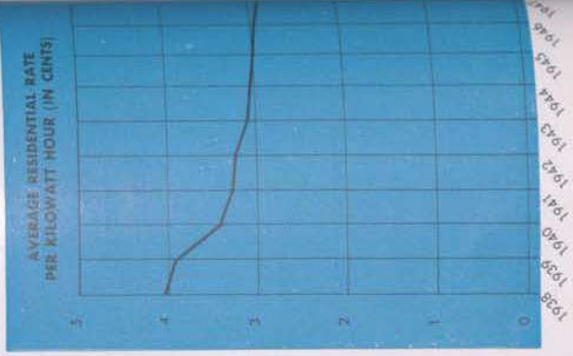
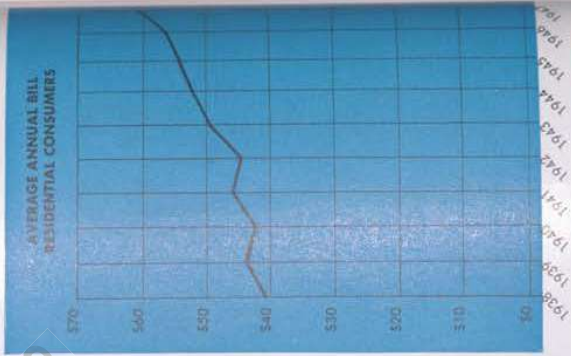
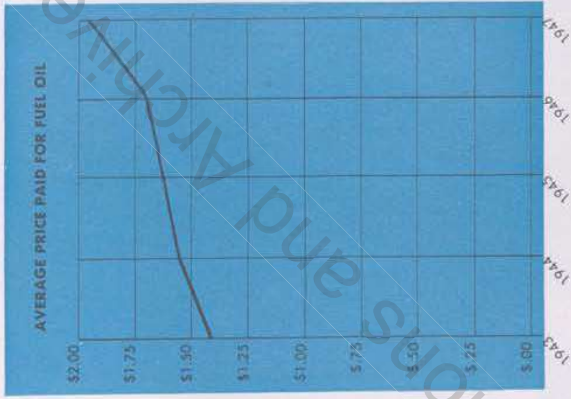


Non-recurring items of expense which are reflected in the operating expenses for the year 1947 include the unusually large job on the 20,000 KW Unit No. 5 in the Bishop Street Plant. This job was to correct the balance of the unit which has always run poorly during load changes and the starting-up period. The 20-ton rotor was hauled to Pearl Harbor and taken apart in the large hydraulic press there. The cause of the unbalance was found and corrected.

Also included is the floating power plant "Jacona" which was released to the U. S. Navy as of November 30, 1947, having successfully completed stand-by service for the Waiiau Plant during the construction of the new 40,000 KW enlargement.

INCREASE IN COST OF FUEL OIL

During the year we had four increases in the price of fuel oil which brought the price from \$1.71 per barrel to \$2.59 per barrel as of December 27, 1947. This tremendous increase in the price of fuel oil increased the cost of production of electric energy during 1947 and will have a very marked effect upon our future earnings if the price of fuel oil remains at this level. The average price of fuel oil per barrel during the past 5 years is reflected in the accompanying graph.



ELECTRIC RATES HAVE NOT INCREASED

While the cost of living index continued to rise during 1947, the corresponding figure for electricity continued its decline. At the end of the year, the U. S. Bureau of Labor Statistics showed an index of 164 for all items as compared to 88 for electricity (1939 is taken as 100).

In 1947, the average annual home consumption of electricity on the company's system rose to 2,125 KWH, a gain of more than 10% over 1946. While consumption was going up, cost was going down. The average cost to the household dropped from 2.99c per KWH in 1946 to 2.90c in 1947. The mainland average cost, according to the Edison Electric Institute, was 3.05c per KWH.

Trend of The Hawaiian Electric Company customer usage is illustrated on this page.



New Kailua office in Mutual Telephone Co. building

Electric utilities have an enviable record of declining cost of service to their consumers over a period of many years, made possible by increased output and technological improvements, which followed from intense promotional effort and engineering research. But the battle of bigger volume and higher efficiency against increasing labor, materials and fuel costs is yielding less and less in price reduction until today we are uncertain of further gains. Unless upward cost trends are stopped, the price of electricity cannot be held at present levels.

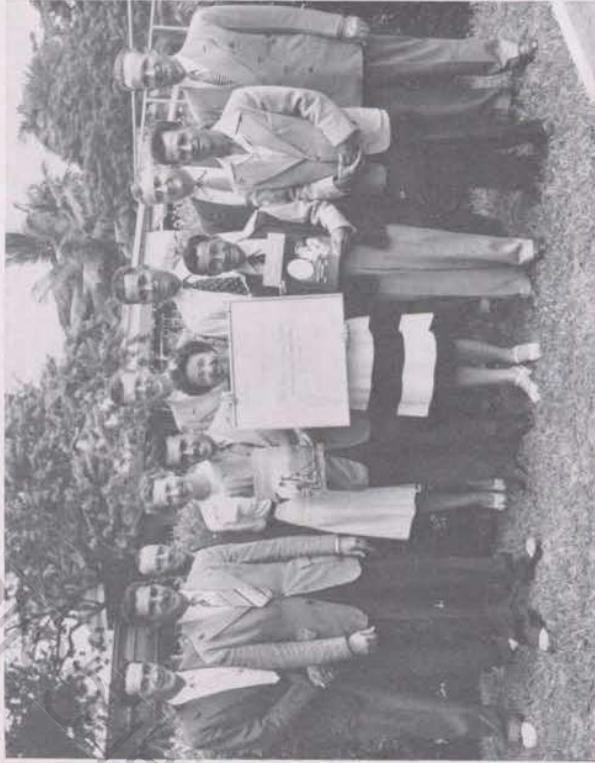
INCREASED RURAL GROWTH

We have kept pace with growth in the rural districts by opening an office in Kailua in addition to the one already established in Wahiawa. This permits better and more convenient service in these areas. Special direct telephone lines connect these offices with Honolulu. This makes it possible to transact business directly with the various departments of the company.



PROMOTION DEPARTMENT

For the first time since the outbreak of the war, the Promotion Department was able during 1947 to resume its work of encouraging people to use more electricity on a scale comparable to prewar years. It set a new record of sales in our own retail store in the main building.



Load Builder staff with award from Public Utilities Advertising Association

The Promotion Department also helped to further the activities of a dealer-distributor organization that is developing sound sales methods and business ethics and has been an important factor in building sales for all distributors and dealers.

In its advertising, the Promotion Department scored a signal triumph. At the annual advertising contest of the Public Utilities Advertising Association, The Hawaiian Electric Company won first place for the best public relations newspaper campaign, first place for the best single advertisement and first place for the best employee publication. Winning three of the highest awards against a field of 1,400 companies is an accomplishment of which every Hawaiian Electric Company employee can be proud.

HOME SERVICE

The Home Service Division, which plays a major role in promoting the use of electric appliances in the home, performed an outstanding job in spite of the fact that their auditorium and kitchen, because of building changes, were not available for their use after September.

The highlights of the year included the weekly classes for homemakers, which broke all records for attendance, training classes for appliance sales people which covered the use of all types of major appliances, home demonstrations and adjustment calls, appliance demonstrations in the company's kitchen, lectures and demonstrations on the story of electrical living to school children and to other groups through the use of films, a weekly radio program "Kitcheneering in Hawaii" presented throughout the year, distribution of 114 newspaper and magazine articles and many booklets and thousands of pieces of literature.



Office Electrical Development Advisory Service—W. E. Garrison, Director

Records Division, Commercial Department, speeds customer service





NON-UTILITY OPERATIONS

Many new electrical appliance stores have been opened in the Territory during 1946 and 1947. It has been highly important to keep them as well as older ones supplied with merchandise. In this activity the Wholesale Supply Department has had the most successful year in its history.

New lines of merchandise have been added. We now have larger stocks and a greater variety on hand. This enables us to meet the normal demands of our trade and to handle their emergency orders in much better fashion.

MERCHANDISE DEPARTMENT

The tremendous growth in the merchandising activities of our business, which includes the Wholesale Supply, Electrical Contracting and Industrial and Appliance Maintenance Divisions, is apparent from the following tables:

Comparative Revenues for the past five years:

Year	Revenues
1943	\$3,171,471.83
1944	2,637,578.39
1945	2,428,441.77
1946	2,694,726.02
1947	5,815,399.46

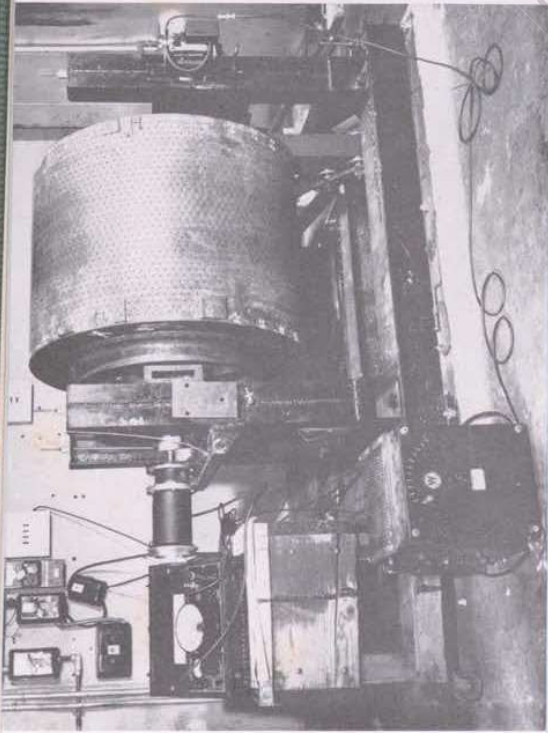
In the latter part of the year the supply sales and office units of the Wholesale Supply Department were moved into new quarters in space formerly occupied by the Distribution Department in Warehouse No. 2, where they will have more adequate facilities and space to handle the large volume of merchandise and services to our customers. Recognizing the need of our dealers for adequate display space to show the large and varied line of merchandise now offered

Summarized Statement of 1947 Revenue, Cost of Sales and Operating Expenses

	1947		Increase over 1946	
	Amount	Per cent of Revenues Operating	Amount	Per cent
Operating Revenues.....	\$5,815,399.46	100.0	\$3,120,673.44	115.8
Operating Expenses, including Cost of Sales:				
Cost of Sales.....	\$4,195,552.95	72.2	\$2,251,868.57	115.9
Operating Expenses.....	793,195.08	13.6	277,513.15	53.8
Depreciation.....	13,607.20	.2	1,906.54	16.3
Taxes.....	393,526.42	6.8	268,327.20	214.3
TOTAL Operating Expenses.....	\$5,395,861.65	92.8	\$2,799,615.46	107.8
NET Operating Revenues.....	419,537.81	7.2	321,057.98	326.0



Wholesale Supply Department—Dealer Display Room and Dealer sales counter at Ward Avenue



Sugar centrifugal being dynamically balanced in Industrial and Appliance Maintenance Department

to our customers, an attractive wholesale display floor was created for this purpose on the mezzanine directly above the sales office in Warehouse No. 2, which is available to all of our dealers for customer showing and demonstration. These changes have converted the Warehouse No. 2 building to the exclusive use of the Wholesale Supply, Electrical Contracting and Industrial and Appliance Maintenance Departments, all non-utility activities.

The sales personnel for appliance and industrial apparatus were transferred to the second floor of the new Ward Avenue building. This change allows for greater coordination of sales programs and better service to the trade.

INDUSTRIAL AND APPLIANCE MAINTENANCE

Although the major increase in operating revenues was due to the Wholesale Supply Department, Industrial and Appliance repair service and the Electrical Contracting Divisions contributed substantially to the increase. The sale of Industrial and Appliance Maintenance parts and repair services reached an all-time high of \$496,095 in 1947. This activity, which is an important and necessary service to the

public, is usually operated at a loss but in the past year showed a profit of \$30,000. Consolidation of office space and combined accounting with the Contract Wiring Division was effected this year and should make possible more profitable operations in the future.

ELECTRICAL CONTRACTING

The electrical contracting division of our merchandising business although short of both labor and material in 1947, was able to maintain a high volume and ended the year with a net profit of \$20,000 which was made possible through improved operating methods.

ICE AND COLD STORAGE

The plans of the Territory of Hawaii for the widening of Halekauwila Street and the consequent taking by condemnation of a 50-foot strip of the company's property will necessitate the discontinuance of our ice and cold storage business. We have been advised that the acquisition of the land and buildings will probably take place at the end of 1948. Comparative figures for the past five years of ice production and sales and cold storage revenues are shown below:

Year	Ice Sales Revenues	Ice Production Tons	Consumers
1943	\$146,357.54	27,081	380
1944	136,453.07	24,855	420
1945	134,599.84	23,844	441
1946	113,694.46	20,132	137
1947	114,245.58	17,204	25

COLD STORAGE

Year	Revenues
1943	\$69,565.00
1944	60,388.39
1945	45,935.81
1946	51,340.64
1947	78,339.07



OTHER ACTIVITIES

FINANCING

On July 2, 1947 \$5,000,000 principal amount of the company's First Mortgage Bonds, Series "F", 3% dated May 1, 1947 and due May 1, 1977, was concluded for which the company received 102% of the face amount of the bonds plus accrued interest from date of issue. From the proceeds of the sale of the bonds, bank borrowings totalling \$2,700,000 were paid off.

ORGANIZATIONAL CHANGES

Mr. George Hogg was appointed Acting Treasurer during the leave of absence of Mr. Gaskell S. Jacobs and became Treasurer of the company at the close of the year.

Mr. L. A. Buese was appointed Senior Vice-President in charge of the Engineering, Generation, Transmission and Distribution, General Service and Construction Departments.

Mr. C. J. Schiffers was appointed Vice-President and Assistant Secretary, to have charge of Industrial Relations.

Mr. H. P. Field was appointed Vice-President in charge of the Commercial operations of the company. This includes customer service, customer accounting and meter reading.

Mr. C. E. Nolan was appointed a Vice-President in charge of the promotional activities of the company, including the home service department and retail sales.

At the annual meeting held March 27, 1947, the stockholders increased the number of directors from 12 to 13 and added Mr. A. Lewis, Jr. to the Board. During the year, Mr. Heaton L. Wrenn and Mr. U. J. Rainalter were appointed directors to fill the vacancies created by the deaths of Mr. A. Lewis, Jr. and Mr. C. R. Hemenway.

Mr. E. Helbush was appointed Internal Auditor and Mr. A. Gentry

was appointed Assistant Internal Auditor when Mr. Hogg was promoted from Internal Auditor to Treasurer.

EMPLOYEE RELATIONS

Significant factors affecting employee relations were enactment of the Labor Management Relations Act by Congress, reduced employment opportunities in the latter part of the year and the rise in the cost of living index. An indication of the steady effect of these factors was a reduction in labor turnover rate to 30% less than the 1946 average.

As a result of negotiations for contract renewal, an agreement was reached with Local Union B-1260, International Brotherhood of Electrical Workers for the year beginning July 1, 1947 granting a wage increase of 10-cents per hour, plus upward adjustments for three-fourths of the covered employees in a complete reclassification plan which gave them an average increase of 3.4 cents additional. Included in the agreement was an increase from two to three weeks in annual vacation allowance for employees with twenty or more years of continuous service and a simplified grievance procedure. All salaried employees were given similar benefits. During the year, some 700 employees won increased rates of pay through promotion or merit reclassification.

The company has consistently attempted to keep wage rates up to the level of increased living costs in the community. How well we have succeeded is shown in the accompanying chart which indicates that our wage rates have increased relatively more than the cost of living, particularly in the lower rated jobs.

EMPLOYEE ACTIVITIES

There still seems to be a lack of skilled workers in the community and it is necessary for the company to continue with its apprentice

training program which started in April, 1946. Twenty-six employees are now receiving training in the various trades and crafts and in drafting. Self-improvement classes were conducted on the company's premises after business hours to over 60 employees. The courses included basic electricity, practical electronics, business English, letter writing and public speaking.

The group life insurance plan which covers 1,282 of our employees with an aggregate coverage of \$6,851,250 paid in claims during 1947 a total of \$36,000 to those who are permanently disabled or who were separated from the company by death.

The retirement annuity plan at the completion of its seventh year of operation had 1,013 participants and a fund balance with the insurance carrier of \$904,110.56.

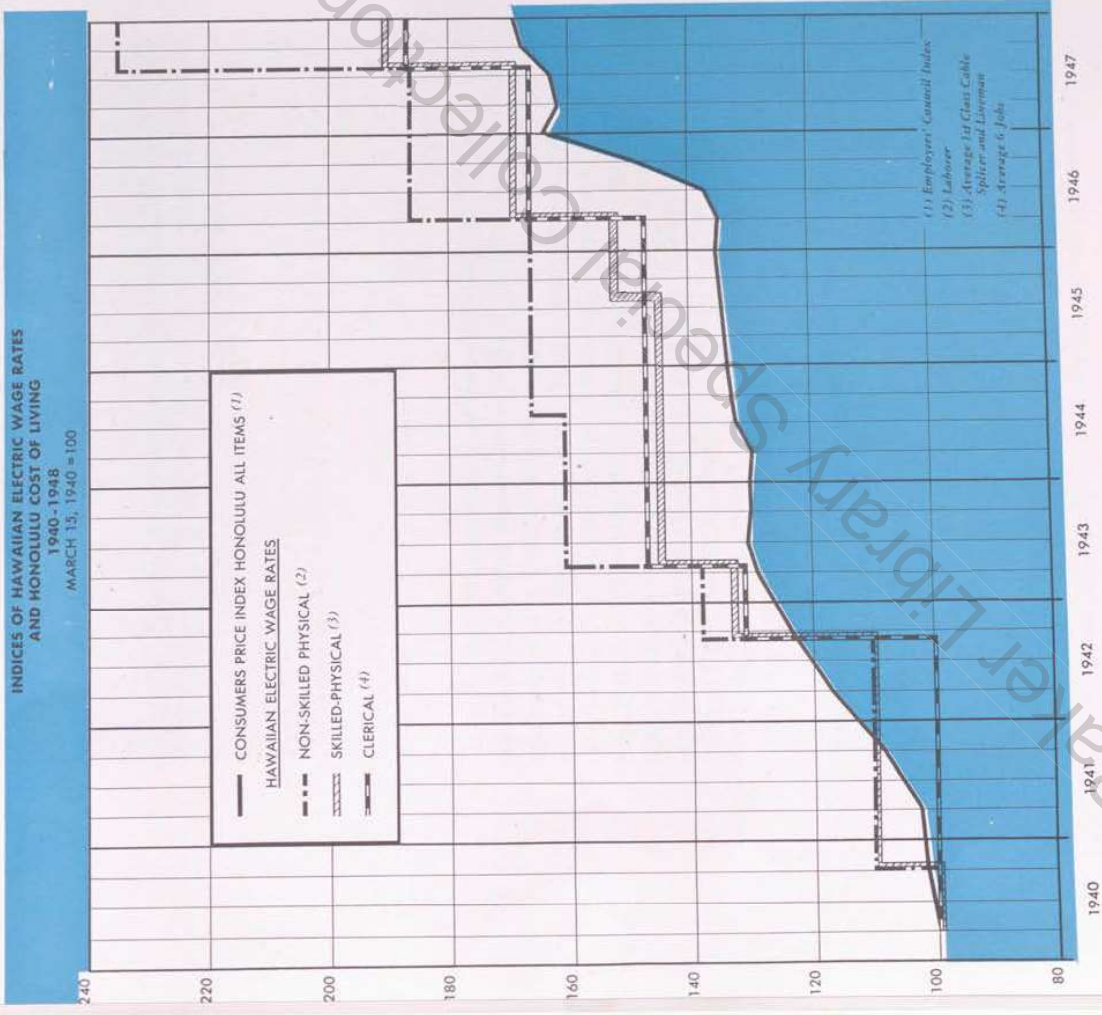
The company's sickness benefit plan paid hourly employees \$28,926.11 for working time lost through illness.

The Medical Aid Association, a mutual organization supported by employees' dues and company contributions increased its membership to 938 and paid 541 claims amounting to \$21,672.85.

Eight employees received emblems representing 30 years or more of service. A sum total of 166 employees attained service of five years or more with the company during the year.

The following employees retired during the year with past service pensions or severance pay authorized by the Board of Directors:

- Manuel Cabral, Yardman, Generation Department, after 30 years of service;
- Walter M. Gove, Head Watchman, Generation Department, after nine years of service;
- Herman Halemano, Utilityman first class, Generation Department, after 18 years of service;
- N. Hayashida, Helper first class, General Service Department, after 22 years of service;
- Gaskell S. Jacobs, Vice-President and Treasurer, after 10 years of service;



Oliver Kauhane, Turbine Operator, Generation Department, after 22 years of service;
 Frank J. Lemes, Watch Engineer, Generation Department, after 47 years of service;
 Lin Lum, Janitor, General Service Department, after 19 years of service;
 Raymond Morales, Watchman, General Service Department, after 12 years of service;
 Karl W. Olsson, Canvas Sewer, Generation Department, after 12 years of service;
 Yosaburo Sato, Helper third class, General Service Department, after 27 years of service;
 Charles W. Wilson, Mechanic Leadingman, Generation Department, after nine years of service.

Frank Lemes receiving service award at presentation ceremonies from President L. A. Hicks (47 years of service at retirement date in 1947)



Board of Trustees — Medical Aid Association

Apprentice class, Basic Electricity, trades and crafts group



C O N C L U S I O N

The results of our operations during the past year are very gratifying, because of the net income realized and because of the volume of work done, services rendered and merchandise handled in the face of many shortages and obstacles. I want very sincerely to congratulate all of our officers, department heads, supervisory personnel, office and physical workers for their outstanding performance. It was a year of real achievement under very trying circumstances and every employee should feel proud of his share in it.

But the year 1947 is passed and we face the year ahead with new tasks and new problems. These will be no less than those of last year and may test our abilities more severely because they will be different. Last year we had tremendous demand for merchandise and services which were greater than our supply and our manpower to satisfy. This year, we will pass from a seller's to a buyer's market which will become very selective. This calls for real salesmanship. Because of changing conditions, cash sales will change to credit sales and credit terms will have to be tightened, further increasing sales resistance.

We have just completed large additions to our physical plant which we built at double the cost of former installations. We must start to carry the increased cost of fixed charges on this investment immediately, but the necessary additional revenues can be built up only at a rate fixed by our ability to sell and service additional electric load.

Comparing the results of 1947 with what we may hope to accomplish in 1948, we face not only the new problems, but must discount some of our successes of last year. The year 1947 was decidedly abnormal in merchandise sales and we can not hope to duplicate such sales again this year. On the other hand, operating expenses will be higher and profit margins narrower. If we are successfully to promote the sale of electric power under the new conditions, we must spend more in promotional effort. Because of the large amount of

new construction work in progress during 1947, large amounts of taxes, interest and overhead expense were charged to capital accounts and credited to operations, thereby increasing apparent net income. Such large credits to operations will not be available during 1948. The cost of providing pensions for future retired employees and the support of those now on our pension payroll is steadily increasing and we shall have to provide more money for this purpose. The average cost of fuel-oil to us last year was \$1.944 per barrel. The estimated cost for 1948 is \$2.548 and there is no assurance that it will not go even higher.

In the face of increased expenses, over which we have no control and the realization that there will be changes in the national and local economy impossible to evaluate and in the further realization that the past year has been too abnormal to provide a basis for predicting this year's results, we are forced to conclude that the year 1948 will be a critical period for management, critical because in the face of many uncertainties we must plan and provide more financing for further expansion of our production and distribution facilities in order that we may adequately serve the increased demands upon us in 1950, when the second generating unit of our No. 2 plant at Waiiau must be ready for operation. Our company is fundamentally sound in its physical equipment and in the men and women who plan and build and operate it. Our obligation to the public requires that we provide adequate service to meet all of their demands, not only for today but for any time in the foreseeable future at the least possible cost. In order successfully to meet the challenge of the coming year, I ask the support of every employee toward holding expenses to the lowest possible level and the development of our service to the public to the highest possible level.

W. M. Aika
President.



TREASURER'S REPORT

Honolulu, Hawaii

To the Directors and Stockholders of
The Hawaiian Electric Company, Limited:

Herewith are submitted the following statements of the financial condition of the Company:

Balance Sheet, December 31, 1947;

Statement of Income and Surplus for the year ended December 31, 1947;

Certificate of Audit;

Additions to Plant and Property Accounts for the year 1947;

Comparison of Departmental Revenues, Expenses and Net Operating Income for 1947 and 1946;

Comparison of Income and Surplus Accounts for the years 1947 and 1946;

Comparison of Taxes for the years 1947 and 1946.

Respectfully submitted,

George Hogg

Treasurer

THE HAWAIIAN ELECTRIC COMPANY, LTD.

BALANCE SHEET
December 31, 1947

ASSETS

FIXED ASSETS:		
Utility Plant in Service	\$ 37,692,602.52	
Utility Construction in Progress	294,713.36	
Total Utility	\$ 37,987,315.88	
Non-Utility Plant:		
Ice and Cold Storage		
Departments	\$ 535,975.55	
Merchandise Department	1,151,454.88	
Total Fixed Assets	\$ 39,138,770.76	
Less Reserve for Depreciation	9,731,679.02	\$ 29,407,091.74
INVESTMENT IN REAL ESTATE		23,100.00

CURRENT AND ACCRUED ASSETS:

Cash on Hand and in Banks		\$ 444,490.59
Notes and Accounts Receivable:		
Electric Agreements	411,051.31	
Electric Energy	867,786.06	
Ice and Cold Storage	14,485.99	
Merchandise Accounts	778,814.58	
Others	6,710.67	
Less Reserves for Uncollectible Accounts	\$ 2,078,848.61	
	127,262.24	1,951,586.37

Merchandise and Supplies:

Utility Supplies	\$ 1,248,097.93
Non-Utility Supplies	5,762.05
Non-Utility Merchandise	1,686,291.42
Jobs in Progress	96,732.82
Prepaid Insurance, Rent, etc.	43,163.36
	5,476,124.54

CONSIGNED MERCHANDISE (Contra)

\$89,871.59

DEFERRED DEBITS:

Unamortized Bond Discount and Expense	\$ 169,917.88
Other Utility Work in Progress	9,066.83
Electric Contracting Department Overhead	22,168.04
Deferred Regulatory Commission Expense	28,108.82
Clearing Accounts	12,665.60
Other Deferred Debits	17,676.83
CAPITAL STOCK EXPENSE	259,604.00
	128,334.08
	\$ 35,294,254.36

BALANCE SHEET
December 31, 1947

LIABILITIES

CAPITAL STOCK:		
Common Capital Stock, Outstanding Shares, Par Value \$20.00 Each	350,000	\$ 7,000,000.00
Preferred Capital Stock, 5% Cumulative Series "B" Outstanding, 100,000 Shares Par Value \$20.00 Each	2,000,000.00	
Preferred Capital Stock, 4 1/4% Cumulative Series "C" Outstanding, 150,000 Shares Par Value \$20.00 Each	3,000,000.00	\$ 12,000,000.00

LONG TERM DEBT:

First Mortgage Bonds, 4% Series "A" Due 1958	\$ 200,000.00
First Mortgage Bonds, 3 1/2% Series "D" Due 1964	5,000,000.00
First Mortgage Bonds, 3 1/8% Series "E" Due 1970	5,000,000.00
First Mortgage Bonds, 3% Series "F" Due 1977	5,000,000.00
	15,200,000.00

CURRENT AND ACCRUED LIABILITIES:

Notes Payable	\$ 400,000.00
Accounts Payable	608,074.33
Customers' Deposits and Interest Thereon	75,420.95
Accrued Taxes	1,177,783.35
Interest Accrued on Long-Term Debt	137,645.81
Accrued Payroll	22,170.54
Other Current and Accrued Liabilities	345.00
	2,421,499.99

CONSIGNED MERCHANDISE LIABILITY (Contra)

\$89,871.59

DEFERRED CREDITS:

Unamortized Premium on Debt	\$ 313,959.57
Customers' Advances for Construction	20,822.07
Deferred Customers' Deposits, etc.	15,342.60
Unearned Interest on Sales Agreements	33,367.34
Employees' Retirement Plan Contributions	25,759.46
Customers' Credit Balances	49,773.82
Sundry Other Deferred Credits	11,681.28
	470,706.11

RESERVES:

Automobile Property Damage Reserve	\$ 33,196.27
Injuries and Damages to Others Reserve	25,000.00
Workmen's Compensation Liability Reserve	83,646.80
Sales Agreement Repossession Reserve	7,179.34
Inventory Reserve	113,849.04
Tax Contingency Reserve	200,000.00
	462,871.41

CONTRIBUTIONS IN AID OF CONSTRUCTION EARNED SURPLUS

\$ 35,294,254.36

NOTE: As at December 31, 1947 the Company had commitments of approximately \$1,700,000, which provide for payments in periodic installments during the next two years for home construction. These commitments are included in the above balance sheet.

THE HAWAIIAN ELECTRIC COMPANY, LTD.

STATEMENT OF INCOME AND SURPLUS

For the Year Ended December 31, 1947

Utility Operating Revenues:		
Sales of Electric Energy	\$ 9,071,379.38	
Other Electric Revenues	134,123.87	\$ 9,205,503.25
Utility Operating Costs:		
Operating Expenses	\$ 5,647,896.51	
Depreciation	685,254.06	
Taxes	1,369,940.75	
Less Taxes Charged to Construction	\$ 7,703,091.32	88,726.10
Utility Operating Income		\$ 1,591,138.03
Other Income:		
Income from Non-Utility Departments:		
Ice	\$ 15,309.99	
Cold Storage	9,695.00	
Merchandise Department	419,537.81	
Total Non-Utility Income	\$ 444,542.80	
Income from Leased Properties	644.60	
Interest Revenues	3,903.93	449,091.33
Gross Income		\$ 2,040,229.36
Income Deductions:		
Interest on Long-Term Debt	\$ 413,833.34	
Amortization of Debt Expense	6,923.76	
Amortization of Premium on Debt, Credit	13,690.98	
Other Interest Charges	16,013.38	
Interest Charged to Construction, Credit	177,452.12	
Donations	31,020.89	276,648.27
Net Income for the Year		\$ 1,763,581.09
Earned Surplus Account:		
Earned Surplus January 1, 1947	\$ 3,464,111.97	
Miscellaneous Credits to Surplus	40,164.42	3,504,276.39
Gross Surplus		\$ 5,267,857.48
Deductions from Surplus:		
Cash Dividends on Preferred Stock	\$ 227,500.00	
Cash Dividends on Common Stock	875,000.00	
Miscellaneous Debits to Surplus	11,680.79	1,114,180.79
Earned Surplus at End of Year		\$ 4,153,676.69



Certificate of Audit

We have examined the accounts and records of THE HAWAIIAN ELECTRIC COMPANY, LIMITED, for the year ended December 31, 1947. The accounting records and supporting data of the Company were examined or tested by us to the extent we consider appropriate in view of the internal system of accounting control regularly maintained.

As at December 31, 1947, the Company had commitments of approximately \$1,700,000.00 payable in periodic amounts during the next three years for power plant equipment ordered and in process of manufacture. Claims for refunds of Federal income and excess profits taxes for the years 1941 to 1945 inclusive, in the amount of \$120,699.29 have been filed and it is believed they will be collected. These commitments and claims have not been included in the accounts or in the attached balance sheet.

The attached Balance Sheet and Statement of Income and Surplus with the foregoing comments, in our opinion, fairly present in accordance with accepted principles of accounting consistently maintained and the Uniform System of Accounts employed, the financial position of the Company as at December 31, 1947, and the results of operations for the year then ended.

HENRY DAVIS AUDIT COMPANY,
By J. J. DELPECH,
Certified Public Accountant.

Honolulu, T. H.
February 27, 1948.

THE HAWAIIAN ELECTRIC COMPANY, LTD.

ADDITIONS TO PLANT AND PROPERTY ACCOUNTS

Classification	Ledger Values Jan. 1, 1947	Retirements and Adjustments	Additions Made During 1947	Ledger Values Dec. 31, 1947
Utility Plant:				
Steam Production Plant	\$14,097,488.81	\$ 10,991.52	\$6,340,824.76	\$20,427,322.05
Transmission & Distribution Plant	12,867,838.53	257,231.49	2,305,374.75	14,915,981.79
General Plant	2,236,077.12	29,183.67	142,405.23	2,349,298.68
Work in Progress:				
Steam Production Plant	3,104,860.42		3,042,193.07	62,667.35
Transmission and Distribution Plant	613,058.43		388,289.75	224,768.68
General Plant	2,890.39		4,386.94	7,277.33
Total Utility Plant	\$32,922,213.70	\$297,406.68	\$5,362,508.86	\$37,987,315.88
Non-Utility Plant:				
Ice Department	\$ 398,909.02	\$ 16,322.20		\$ 382,586.82
Cold Storage Department	153,388.73			153,388.73
Merchandise Department	413,592.53	79,898.76	116,404.15	609,892.44
Work in Progress:				
Merchandise Department	4,281.30		1,505.59	5,586.89
Total Non-Utility Plant	\$ 970,171.58	\$ 63,576.56	\$ 117,706.74	\$ 1,151,454.88
Total Plant and Property	\$33,892,385.28	\$233,830.12	\$5,480,215.60	\$39,138,770.76

DEPARTMENTAL OPERATING REVENUES, EXPENSES AND NET OPERATING INCOME

For the Years 1947 and 1946

	1947	1946	Increase Decrease
Utility Department:			
Operating Revenues	\$ 9,205,503.25	\$ 8,387,628.71	\$ 817,874.54
Operating Expenses	7,614,365.22	7,028,725.30	585,639.92
Net Operating Income	\$ 1,591,138.03	\$ 1,358,903.41	\$ 232,234.62
Ice Department:			
Operating Revenues	\$ 114,245.58	\$ 113,694.46	\$ 551.12
Operating Expenses	98,935.59	110,449.28	11,513.69
Net Operating Income	\$ 15,309.99	\$ 3,245.18	\$ 12,064.81
Cold Storage Department:			
Operating Revenues	\$ 78,339.07	\$ 51,340.64	\$ 26,998.43
Operating Expenses	68,644.07	54,637.20	14,006.87
Net Operating Income	\$ 9,695.00	\$ 3,296.56	\$ 12,991.54
Merchandise Department:			
Operating Revenues	\$ 5,815,399.46	\$ 2,694,726.02	\$ 3,120,673.44
Operating Expenses including Cost of Sales	5,395,861.65	2,596,246.19	2,799,615.46
Net Operating Income	\$ 419,537.81	\$ 98,479.83	\$ 321,057.98
Total:			
Operating Revenues	\$15,213,487.36	\$11,247,389.83	\$3,966,097.53
Operating Expenses	13,177,806.53	9,790,057.97	3,387,748.56
Net Operating Income	\$ 2,035,680.83	\$ 1,457,331.86	\$ 578,348.97

THE HAWAIIAN ELECTRIC COMPANY, LTD.

COMPARISON OF INCOME AND SURPLUS ACCOUNTS

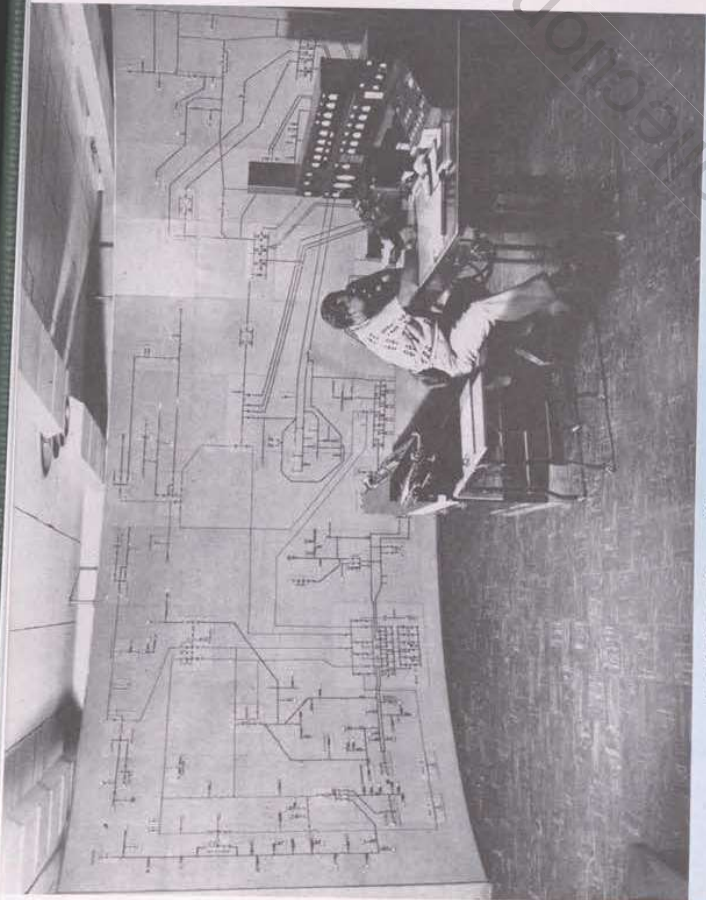
For the Years 1947 and 1946

	1947	1946
Operating Revenues	\$15,213,487.36	\$11,247,389.83
Operating Revenue Deductions:		
Operating Expenses	\$10,849,935.12	\$ 7,796,775.54
Territorial and Federal Taxes	1,620,581.56	1,338,734.94
Depreciation	707,289.85	654,547.49
Net Operating Income	\$13,177,806.53	\$ 9,790,057.97
Other Income	\$ 2,035,680.83	\$ 1,457,331.86
Other Income	4,548.53	2,184.01
Gross Income	\$ 2,040,229.36	\$ 1,459,515.87
Income Deductions:		
Interest on Long-Term Debt	\$ 413,833.34	\$ 339,249.97
Amortization of Debt Discount and Expense	6,923.76	6,180.41
Amortization of Premium on Debt—Credit	13,690.98	12,015.00
Other Interest Charges	16,013.38	4,029.25
Interest Charged to Construction—Credit	177,432.12	131,624.98
Donations	31,020.89	26,938.87
Other Income Deductions	113.81	113.81
Total Income Deductions	\$ 276,648.27	\$ 232,872.33
Net Income Transferred to Surplus	\$ 1,763,581.09	\$ 1,226,643.54
Earned Surplus at Beginning of Year	3,464,111.97	2,553,713.65
Transfer from Tax Contingency Reserve	655,964.69	655,964.69
Transfer from Reserves for Uncollectible Accounts	168,482.99	168,482.99
Miscellaneous Credits to Surplus	40,164.42	40,111.68
Gross Surplus	\$ 5,267,857.48	\$ 4,608,816.25
Deductions from Surplus:		
Cash Dividends on Preferred Stock	\$ 227,500.00	\$ 227,500.00
Cash Dividends on Common Stock	875,000.00	700,000.00
Wage Payments for Prior Years and Payroll Taxes Thereon	191,197.50	191,197.50
War Contracts Renegotiation Payments for the Years 1942, 1943 and 1944	11,680.79	11,670.96
Miscellaneous Debits to Surplus	1,114,180.79	1,144,704.28
Earned Surplus at End of Year	\$ 4,153,676.69	\$ 3,464,111.97

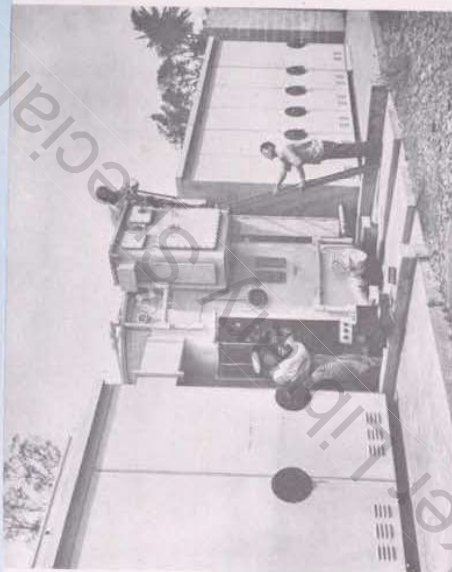
COMPARISON OF TAXES FOR THE YEARS

1947 and 1946

	1947	1946
Federal:		
Normal Income and Surtax	\$ 688,892.88	\$ 425,333.51
Electric Energy	178,239.68	155,522.61
Total Federal	\$ 867,132.56	\$ 580,856.12
Territorial:		
Income	\$ 155,468.84	\$ 80,918.09
Public Utility Excise	429,514.81	496,477.87
Franchise Royalty	223,460.99	214,342.75
Real Property	5,874.31	4,366.02
Personal Property	14,467.05	13,284.93
Public Utility Commission Fees	13,389.10	14,501.70
Total Territorial	\$ 842,175.10	\$ 823,691.36
TOTAL	\$1,709,307.66	\$1,404,547.48
Less Taxes Charged to Construction	88,726.10	65,812.54
Total	\$1,620,581.56	\$1,338,734.94
Other Taxes:		
Federal Unemployment	\$ 11,582.09	\$ 10,221.97
Federal Old Age Benefit	38,606.96	34,073.61
Territorial Automobile	8,815.80	9,259.55
Territorial Gross Income and Consumption	82,908.34	36,081.36
TOTAL TAXES	\$1,762,494.75	\$1,428,371.43



Load Dispatchers office, nerve center of the system



New unit type substation

Retail display floor at Christmas time

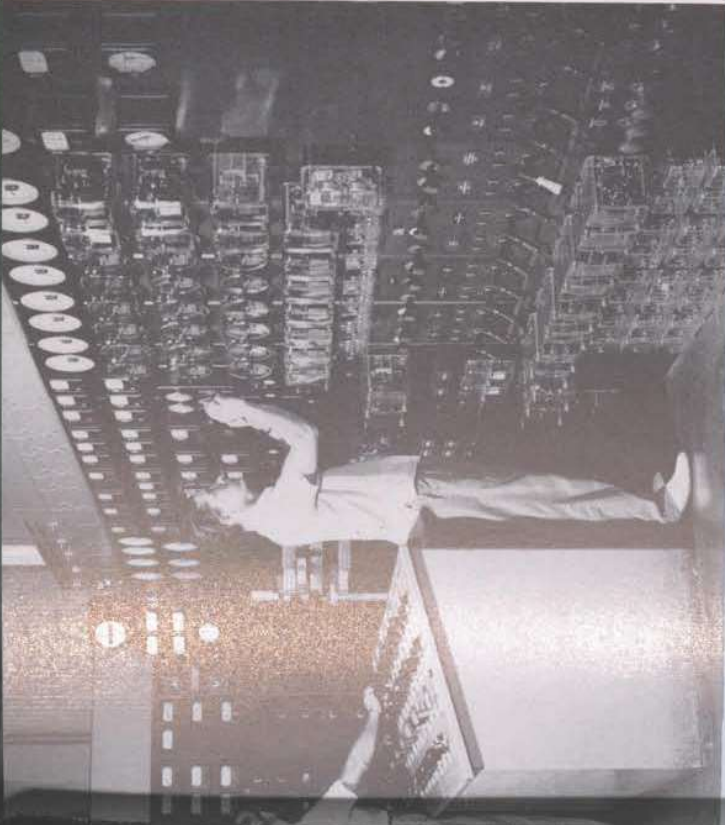


Loading 20,000 kw turbine rotor on truck for removal from power plant



Commercial Department—Application Division

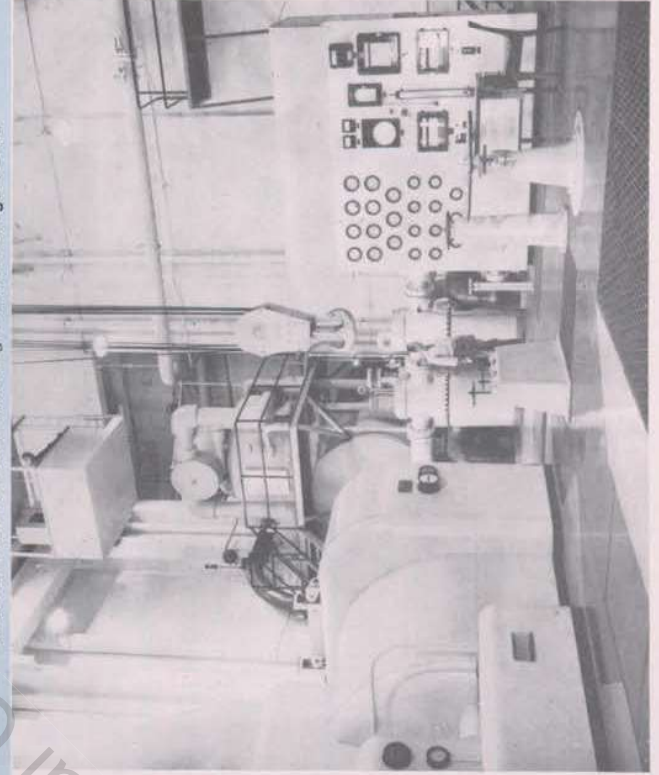
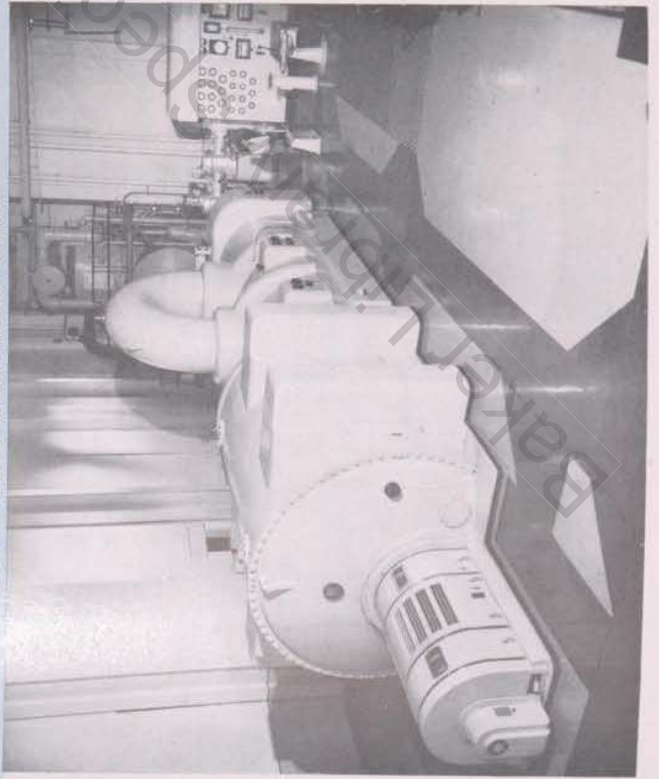




Switchboard Panel, Honolulu Power Plant
No. 7 Turbine Unit, Honolulu Power Plant



Engineering Department, Ward Avenue
Another view of No. 7 showing Turbine Gauge Board



IN MEMORIAM



We record with deep regret the passing of:

OLIVER GRAHAM
General Construction Department — October 16, 1947

CHARLES R. HEMENWAY
Member, Board of Directors — October 15, 1947

HARRY HICKS
Building Service (Retired) — July 2, 1947

JOSEPH KAUWE
Distribution Department — March 13, 1947

A. LEWIS, JR.
Member, Board of Directors — May 29, 1947

SHICHIRO SAKAMOTO
General Construction Department — September 29, 1947

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The Hawaiian Electric Company, Limited

HONOLULU, HAWAII