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HAWAIIAN ELECTRIC COMPANY, INC.
ANNUAL REPORT / 1966



from
the Officers and Directors of
Hawaiian Electric Company

**ANNUAL REPORT FOR THE YEAR 1966
HAWAIIAN ELECTRIC COMPANY, INC.**

HIGHLIGHTS 1966

	Increase Over 1965
SALES	8.3%
Sales of Kilowatt-hours were 2,282,967,883 for the year, a record high in the Company's history	
OPERATING REVENUES	7.0%
Increased to \$47,307,055, a gain of \$3,096,008	
NET INCOME	16.2%
Totalled \$7,039,308, an increase of \$980,273	
EARNINGS PER SHARE	19.0%
Earnings per share were \$1.63 on common stock outstanding at year end	
UTILITY PLANT	10.7%
Utility plant in service and construction in progress now has a total worth of \$216,746,350, an increase of \$21,006,016	
PEAK DEMAND	9.7%
Maximum Kilowatt demand increased by 43,000 kw to 488,000 kw	
CUSTOMERS	5,561
Number served now totals 146,465	
RESIDENTIAL USE KWH	176
Average annual residential use increased to 6,234 kwh, approximately 26% greater than the national average use per residential customer of investor-owned utilities	

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On the cover: Night-glow of Waikiki shore-line reflects growth of hotels, apartment buildings catering to upsurge of tourism

Inside covers: Construction activity in Honolulu is dramatized by many cranes at work, photographed at random in one week



LETTER FROM THE PRESIDENT

Hawaiian Electric reached its 75th anniversary on October 13 and is one of the oldest operating electric utilities in the United States. The past record of the Company is exceptionally good, and the future holds great promise for continued growth and accomplishment.

Our diamond anniversary year was saddened by the loss of two former presidents within a few weeks of each other. Mr. Leslie A. Hicks, Manager from 1937 and President from 1943 to 1959, died suddenly at Vancouver, B. C., August 10. Mr. Ralph B. Johnson, his successor and immediate Past President, passed away in Honolulu September 5, barely more than a month after resigning as President on July 29 because of illness. Both men were Directors at the time of their death, and during their long careers with the Company had made important contributions to its progress. In addition, both were honored for their distinguished leadership in local community affairs and had won national recognition as leaders in the industry.

Record high levels of business and military activity in our service area resulted in a most successful year for the Company. Kilowatt hour sales of electricity increased 8.3 per cent to a record two and a quarter billion. An aggressive sales program directed toward residential use of electricity has been most effective in building the all-electric

concept. More than 90 per cent of all new homes built on Oahu last year were all-electric.

Revenues increased 7 per cent, and net income rose more than 16 per cent. Earnings per share on common stock rose to \$1.63 — 26 cents more than in 1965. Fifteen of the 26 cents is accounted for by a credit to earnings for interest charged to construction. Our construction program included major increases in our generating, transmission and distribution facilities.

Effective with the third quarter, the quarterly dividend on common stock was increased from 25 to 27 cents per share.

An electric utility's success is closely tied to the economic strength of the community it serves. All major sectors of Hawaii's economy showed positive gains in 1966:

- Federal defense spending, up 12.8 per cent to an estimated \$519,000,000, is a major factor as Hawaii supplies many military needs.
- New construction was up 5.5 per cent to \$362,000,000 despite tight money and high interest rates which are hampering construction of single-family homes.
- Agriculture, up 6.6 per cent to \$357,000,000, is still a vital part of the Islands' economy. Sugar production reached an all-time high of 1,235,000 tons.

- Tourism was up 13.2 per cent to a new high of approximately \$300,000,000. More than 700,000 visitors came to Hawaii in 1966 including 40,000 conventioners.
- Diversified manufacturing, up 6.7 per cent, equals tourism in dollar volume.

All indicators point to a continuing upward trend in Hawaii's business, industrial and military life and to the need for continued Hawaiian Electric expansion.

My appointment as President, although in tragic circumstances, came at a time when the Company was strong and confident, following years of fine leadership by men of exceptional energy and foresight. I acknowledge and appreciate the counsel of our able Board of Directors, the support of our stockholders, and the broad experience and skills of Company employees.

The following pages present in more detail a record of our operations and I hope you will find them interesting.

Russell H. Hassler

President

March, 1967

REVIEW
OF THE
YEAR
1966

SUMMARY OF FINANCIAL RESULTS

(Dollars in Thousands)

	1966		1965	
	Amount	% of Total	Amount	% of Total
WE RECEIVED FROM				
Operating Revenues	\$47,307	99.7	\$44,211	99.9
Other Income	125	0.3	66	0.1
Total	\$47,432	100.0	\$44,277	100.0
WE HAD THESE EXPENSES				
Wages and Employee Benefits Charged to Operations	\$ 9,189	19.4	\$ 9,344	21.1
Fuel Oil	9,371	19.7	8,730	19.7
Other Materials and Services .	3,934	8.3	3,280	7.4
Depreciation	4,503	9.5	4,195	9.5
Federal and Local Taxes	9,521	20.1	9,135	20.7
Investment Credit Deferred (Net)	687	1.4	238	0.5
Interest on Borrowed Money and Other Miscellaneous Expenses ...	3,871	8.2	3,434	7.7
Interest Charged to Construction, Cr.	(683)	(1.4)	(138)	(0.3)
Total	\$40,393	85.2	\$38,218	86.3
LEAVING AS NET INCOME	\$ 7,039	14.8	\$ 6,059	13.7
FROM WHICH WE PAID STOCKHOLDERS				
Preferred Dividends	\$ 1,080	2.3	\$ 1,080	2.4
Common Dividends	\$ 3,793	8.0	\$ 3,516	8.0
AND WE RETAINED IN OUR BUSINESS	\$ 2,166	4.5	\$ 1,463	3.3



It takes many people, many skills to run a modern electric utility—those in trades, crafts; office and clerical workers; supervisors, managers. Hawaiian Electric is its 1,382 men and women, all working together in the service of this expanding community



Dramatic arched exterior and major art creations inside distinguish \$4.5 million Bank of Hawaii branch and office building in heart of Waikiki

Diamond Anniversary Three-quarters of a century ago, during the latter days of the Hawaiian monarchy, Hawaiian Electric Company was founded as a \$20,000 corporation to supply Honolulu with "electric currents for power and for lights." In 1966, its 75th anniversary year, the Company had become a utility with plant in service valued at more than \$190,000,000 to provide light and power to the entire Island of Oahu.

Honolulu in 1891 was a town of unpaved streets and mule-drawn tramcars whose 32,000 people faced new problems of changing from gas and oil light to electric light. Modern Honolulu, with a county population of more than 625,000, is meeting the new problems of another era under statehood, a period of unparalleled growth that has raised Hawaii to eminence in the Pacific and the nation.

An electric utility responds to community growth with planned growth of its own, carefully calculated well ahead of need. During the five-year period 1967-1971 Hawaiian Electric plans expenditures of more than \$100,000,000 for capital expansion to meet this island's increasing electric power requirements.

Among the accomplishments of Hawaiian Electric's diamond anniversary year were these:

- Increased earnings per share and operating revenues.
- New highs in peak demand and kilowatt-hour sales.
- Completion of \$12,600,000 Unit 7 at Waiau Generating Station.

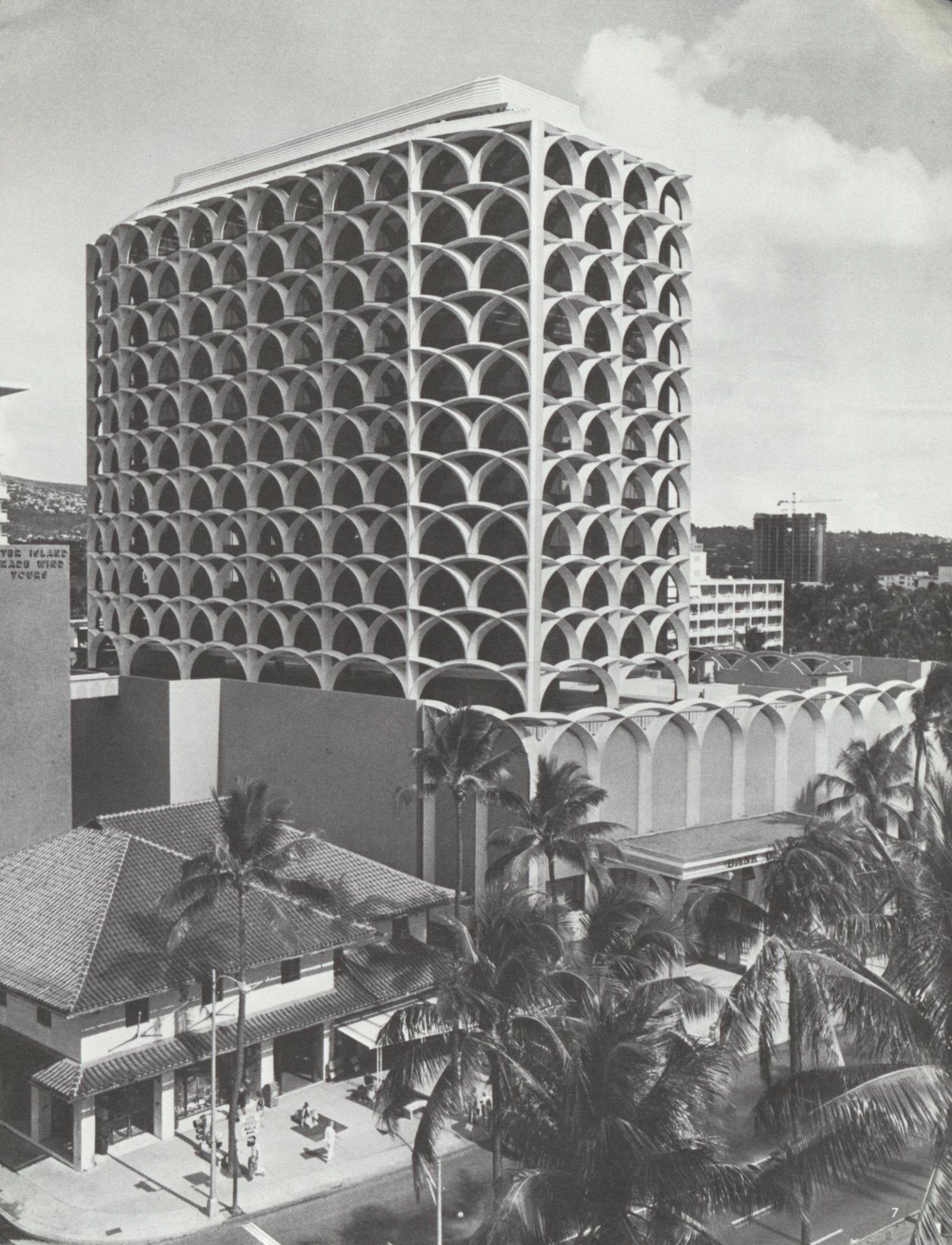
- Extensions of high-voltage transmission system substations.
- Computerized substation control.
- Addition to microwave system.
- Record gains in air conditioning.
- New customer service departments.

Revenue and Sales Kilowatt hour sales showed a gain of 8.3 per cent over the previous year with a record total of 2,282,967,883. Total operating revenues were \$47,307,055, an increase of 7 per cent over 1965. Practically all of our revenue came from the sale of electric energy.

Sales increases were noted for all classes of service, with the greatest increases in power sales. This is a reflection of the high volume of commercial and industrial construction in our service area during the past three years and partially reflects the trend to multiple, high-rise housing. Power sales were up 9.2 per cent. Commercial sales were up 8.4 per cent and residential sales were up 7 per cent. It is estimated that 41 per cent of all revenue derived by the Company on all schedules comes from residential sales.

Expenses Operating expenses were 78.6 per cent of revenue as compared with 79 per cent in 1965 and the improved showing was due primarily to increased efficiency.

The amount paid for wages and benefits was 19.4 per cent of revenue in 1966 compared with



THE ISLAND
KAB WIRE
YOUR

Imposing \$17.5 million State Capitol, to be completed in late 1969, will dominate new government center under development

TAXES

	1966		1965	
	Amount	Percent of Operating Revenue	Amount	Percent of Operating Revenue
TAXES OTHER THAN INCOME				
Public Service . . .	\$3,645,698	7.7	\$3,254,992	7.4
Franchise Royalty .	1,168,931	2.5	1,084,425	2.5
F.I.C.A. and Unemployment	278,065	0.6	288,428	0.6
Other	113,246	0.2	107,144	0.2
	<u>\$5,205,940</u>	<u>11.0</u>	<u>\$4,734,989</u>	<u>10.7</u>
INCOME TAXES				
State				
Current	377,797	0.8	298,904	0.7
Deferred	180,930	0.4	169,048	0.4
	<u>\$ 558,727</u>	<u>1.2</u>	<u>\$ 467,952</u>	<u>1.1</u>
Federal				
Current	2,433,236	5.1	2,508,885	5.7
Deferred	1,323,502	2.8	1,423,216	3.2
	<u>\$3,756,738</u>	<u>7.9</u>	<u>\$3,932,101</u>	<u>8.9</u>
TOTAL INCOME TAXES . .	<u>\$4,315,465</u>	<u>9.1</u>	<u>\$4,400,053</u>	<u>10.0</u>
TOTAL TAXES CHARGED TO OPERATIONS . . .	<u>\$9,521,405</u>	<u>20.1</u>	<u>\$9,135,042</u>	<u>20.7</u>

21.1 per cent the previous year. Despite an increase in wage rates and improved employee benefits, the improvement in performance was attained largely through reduction in overtime hours worked.

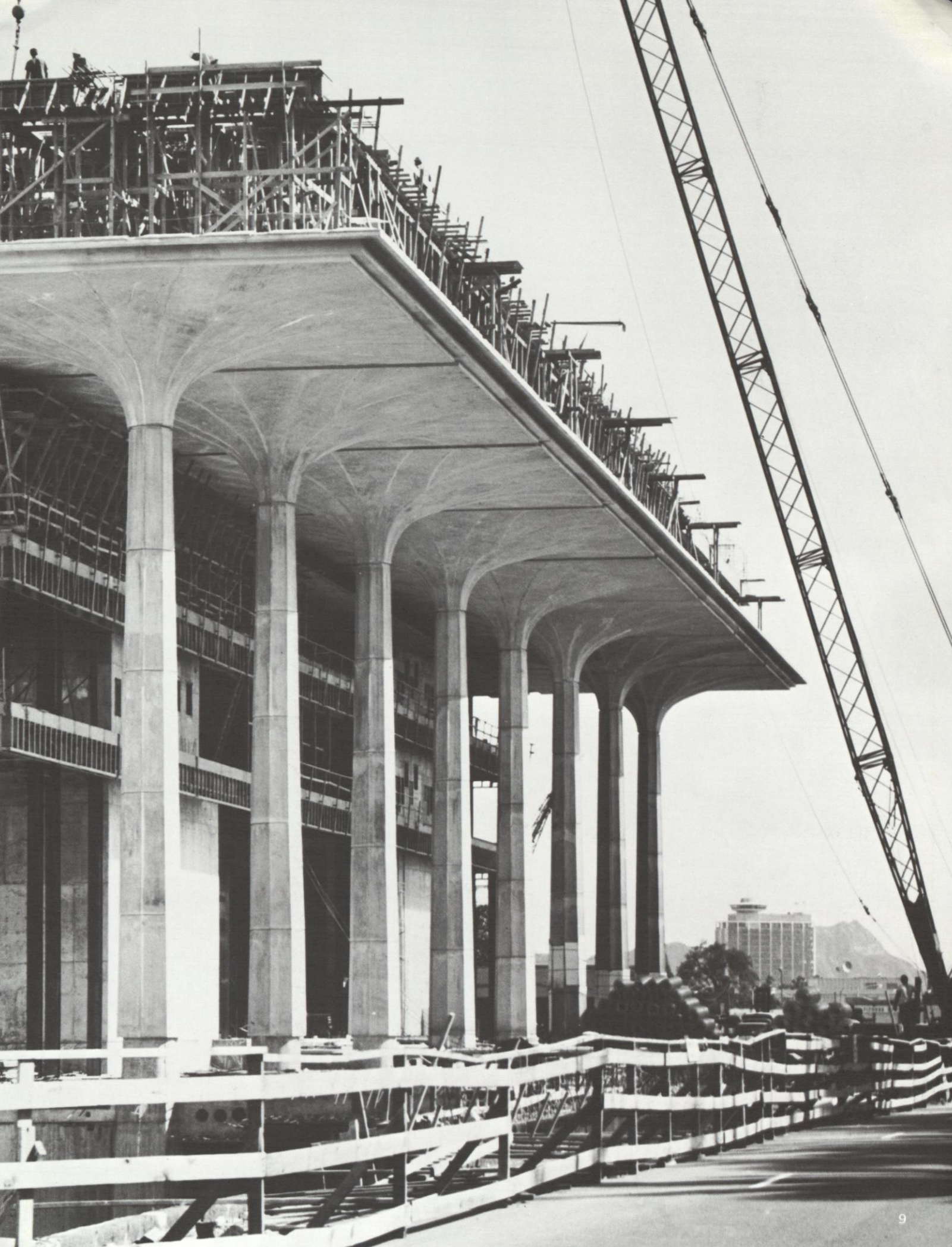
Interest charged to construction increased \$545,146 over 1965.

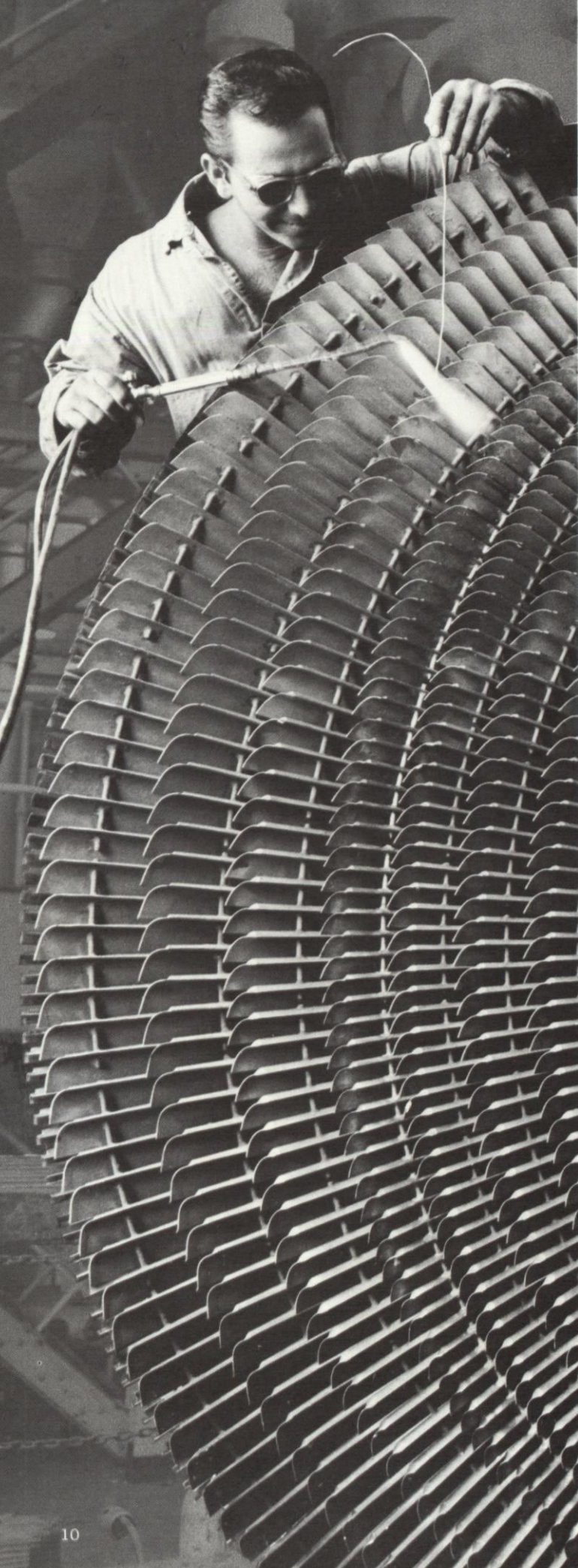
Earnings Based on the number of shares outstanding at year end, the earnings per share were \$1.63, an increase of 26 cents per share over the previous year. Interest during construction accounted for 15 cents of the increase and the remainder can be attributed to improved operations and increased volume.

Suspension of the Federal Investment Credit will not materially affect our 1967 earnings, inasmuch as it has been our policy to amortize the investment credit over 28 years.

Dividends Dividends of \$1,079,907 were paid on preferred stock outstanding. Dividends on common stock of 25 cents per share were paid for each of the first two quarters and 27 cents per share for each of the last two quarters. This represented a 64-per-cent payout of available earnings, leaving \$2,166,399 of earnings retained for use in the Company.

It is estimated that approximately 17.2 per cent of common stock dividends for 1966 was non-taxable for Federal tax purposes. The non-taxable status results primarily from the difference between the depreciation shown on our statements and that allowed for Federal tax purposes. The use





Delicate task of reblading a turbine spindle at Honolulu Power Plant renewed life of unit built about 1930, improving reliability of turbine

of accelerated depreciation for tax purposes has increased this difference further.

Ownership At the close of the year the Company had a total of 12,131 common stockholders, representing ownership in 49 states and 13 foreign countries. Of these, 8,547 represented residents of Hawaii and 745 were employees of the Company. During the year 12,362 shares were issued, representing the balance of the shares subscribed to by employees at the time of the common stock offering of November, 1965. Approximately 66 per cent of the Company's 3,659,184 shares are owned in Hawaii.

Taxes Taxes charged to operations totaled \$9,521,405. This represents \$2.60 per share for each share of common stock outstanding and is two and a half times the earnings paid per share to our stockholders. The chart on page 8 shows the detail of taxes charged to income from operations for 1966 and 1965.

Financing The Company did no long-term outside financing in 1966. At the start of the year, the Company had short-term investments of \$2,000,000 remaining from the proceeds of the common stock issue of November, 1965. These, together with short-term bank loans, were used to finance the capital expenditure program. At the close of the year, short-term bank loans totaled \$8,500,000.

The Company is planning a \$20,000,000 financing program in 1967, which will supply the funds to pay off outstanding loans and provide funds

FINANCIAL
SECTION



BALANCE SHEET

December 31, 1966
(with comparative figures for 1965)

CAPITALIZATION AND LIABILITIES

	1966	1965	Increase (Decrease)
CAPITALIZATION:			
Common Equity:			
Common Stock of \$6 ² / ₃ Par Value Per Share:			
Authorized, 4,500,000 Shares (Note 2)			
Issued, 3,659,184 and 3,646,822 Shares	\$ 24,394,560	\$ 24,312,147	\$ 82,413
Subscribed, 12,362 Shares	—	82,413	(82,413)
Premium on Common Stock	15,582,464	15,582,464	—
Capital Stock Expense	(1,058,225)	(1,053,921)	(4,304)
Retained Earnings	19,610,146	17,333,008	2,277,138
	<u>\$ 58,528,945</u>	<u>\$ 56,256,111</u>	<u>\$ 2,272,834</u>
Cumulative Preferred Stock of \$20 Par Value Per Share:			
Authorized, 2,000,000 Shares			
Issued, 1,114,657 Shares (Note 3)	22,293,140	22,293,140	—
Total Proprietary Capital	<u>\$ 80,822,085</u>	<u>\$ 78,549,251</u>	<u>\$ 2,272,834</u>
First Mortgage Bonds (Note 4)	79,000,000	79,000,000	—
Total Capitalization	<u>\$159,822,085</u>	<u>\$157,549,251</u>	<u>\$ 2,272,834</u>
CURRENT LIABILITIES:			
Notes Payable	8,500,000	—	8,500,000
Drafts Payable	1,622,456	—	1,622,456
Accounts Payable	1,974,232	1,725,075	249,157
Customer Deposits	260,950	187,383	73,567
Taxes Accrued	2,162,425	2,421,142	(258,717)
Interest Accrued	828,801	790,095	38,706
Payroll Accrued	427,077	422,534	4,543
Preferred Dividends Accrued	224,981	224,981	—
Other	139,633	177,759	(38,126)
	<u>\$ 16,140,555</u>	<u>\$ 5,948,969</u>	<u>\$10,191,586</u>
DEFERRED CREDITS:			
Deferred Income Taxes (Note 1)	9,746,878	8,242,446	1,504,432
Unamortized Depreciation Adjustment	968,000	1,056,000	(88,000)
Unamortized Investment Credit (Note 5)	1,822,321	1,135,204	687,117
Unamortized Premium on Debt	47,761	54,613	(6,852)
Other	280,717	231,612	49,105
	<u>\$ 12,865,677</u>	<u>\$ 10,719,875</u>	<u>\$ 2,145,802</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	5,752,837	4,923,866	828,971
	<u>\$194,581,154</u>	<u>\$179,141,961</u>	<u>\$15,439,193</u>

See accompanying notes to financial statements.

BALANCE SHEET

December 31, 1966
(with comparative figures for 1965)

ASSETS

	1966	1965	Increase (Decrease)
UTILITY PLANT, at Cost:			
In Service:			
Land	\$ 5,734,318	\$ 5,177,537	\$ 556,781
Plant and Equipment	208,575,013	183,336,183	25,238,830
	<u>\$214,309,331</u>	<u>\$188,513,720</u>	<u>\$25,795,611</u>
Construction in Progress	2,437,019	7,226,614	(4,789,595)
	<u>\$216,746,350</u>	<u>\$195,740,334</u>	<u>\$21,006,016</u>
Less Accumulated Depreciation (Note 1)	(34,108,902)	(30,504,817)	(3,604,085)
	<u>\$182,637,448</u>	<u>\$165,235,517</u>	<u>\$17,401,931</u>
OTHER PROPERTY AND IMPROVEMENTS, at Cost			
Less Accumulated Depreciation	\$ 462,071	\$ 225,230	\$ 236,841
CURRENT ASSETS:			
Cash	2,060,093	2,168,300	(108,207)
Temporary Investments	—	2,003,245	(2,003,245)
Notes Receivable	422,114	633,171	(211,057)
Accounts Receivable	4,856,199	4,568,688	287,511
Provision for Uncollectible Accounts	(47,336)	(37,826)	(9,510)
Employee Stock Subscriptions Receivable	—	317,974	(317,974)
Construction and Operating Materials and Supplies, at Average Cost	3,109,081	2,925,315	183,766
Prepayments	263,353	174,870	88,483
	<u>\$ 10,663,504</u>	<u>\$ 12,753,737</u>	<u>\$ (2,090,233)</u>
DEFERRED CHARGES:			
Unamortized Debt Expense	699,784	735,687	(35,903)
Clearing Accounts	(3,615)	46,377	(49,992)
Other	121,962	145,413	(23,451)
	<u>\$ 818,131</u>	<u>\$ 927,477</u>	<u>\$ (109,346)</u>
	<u><u>\$194,581,154</u></u>	<u><u>\$179,141,961</u></u>	<u><u>\$15,439,193</u></u>

See accompanying notes to financial statements.

STATEMENT OF INCOME

Year Ended December 31, 1966
(with comparative figures for 1965)

	1966	1965	Increase (Decrease)
OPERATING REVENUES:			
Sales of Electricity	\$47,117,560	\$44,047,809	\$3,069,751
Other Operating Revenues	189,495	163,238	26,257
Total Operating Revenues	<u>\$47,307,055</u>	<u>\$44,211,047</u>	<u>\$3,096,008</u>
OPERATING EXPENSES:			
Fuel Oil	9,371,310	8,730,087	641,223
Operation — Production, Transmission, Distribution	4,079,324	4,087,558	(8,234)
Operation — Customer Accounts, Sales, Administrative and General	5,918,346	5,610,206	308,140
Maintenance	3,125,431	2,925,590	199,841
Depreciation	4,502,462	4,194,619	307,843
Taxes, Other than Income Taxes	5,205,940	4,734,989	470,951
Income Taxes	2,811,033	2,807,789	3,244
Income Taxes Deferred (Note 1)	1,504,432	1,592,264	(87,832)
Investment Credit Deferred, Net (Note 5)	687,117	238,290	448,827
Total Operating Expenses	<u>\$37,205,395</u>	<u>\$34,921,392</u>	<u>\$2,284,003</u>
OPERATING INCOME	\$10,101,660	\$ 9,289,655	\$ 812,005
OTHER INCOME:			
Interest	32,464	101,111	(68,647)
Gain on Sale and Exchange of Assets, Net	91,973	9,515	82,458
Miscellaneous	814	(44,889)	45,703
Total Other Income	<u>\$ 125,251</u>	<u>\$ 65,737</u>	<u>\$ 59,514</u>
TOTAL INCOME	\$10,226,911	\$ 9,355,392	\$ 871,519
MISCELLANEOUS INCOME DEDUCTIONS	193,628	97,126	96,502
INCOME BEFORE INTEREST CHARGES	\$10,033,283	\$ 9,258,266	\$ 775,017
INTEREST CHARGES:			
Interest on Long-Term Debt	3,332,750	3,247,943	84,807
Amortization of Debt Expense and Premium	29,392	27,982	1,410
Other Interest Expense	314,749	61,076	253,673
Interest Charged to Construction, Cr.	(682,916)	(137,770)	(545,146)
Total Interest Charges	<u>\$ 2,993,975</u>	<u>\$ 3,199,231</u>	<u>\$ (205,256)</u>
NET INCOME	\$ 7,039,308	\$ 6,059,035	\$ 980,273

See accompanying notes to financial statements.

**STATEMENT OF
SOURCE AND
DISPOSITION
OF FUNDS**

Year Ended December 31, 1966
(with comparative figures for 1965)

	1966	1965
SOURCE OF FUNDS:		
Net Income	\$ 7,039,308	\$ 6,059,035
Depreciation and Amortization	4,655,985	4,342,972
Deferred Income Taxes	1,504,432	1,592,264
Investment Credit, Net	687,117	238,290
Funds Available from Operations	<u>\$13,886,842</u>	<u>\$12,232,561</u>
Contributions in Aid of Construction	939,710	502,183
Sale of First Mortgage Bonds, Series N	—	11,000,000
Sale of Common Stock	—	5,584,560
Short-Term Bank Loans	8,500,000	—
Drafts Payable	1,622,456	—
Temporary Investments	2,003,245	—
Other Changes in Net Current Assets	156,118	—
Miscellaneous, Net	134,457	—
TOTAL	<u><u>\$27,242,828</u></u>	<u><u>\$29,319,304</u></u>
DISPOSITION OF FUNDS:		
Plant Construction Expenditures	\$22,369,919	\$16,063,286
Dividends on Preferred Stock	1,079,907	1,079,907
Dividends on Common Stock	3,793,002	3,516,472
Payment of Short-Term Bank Loans	—	6,000,000
Temporary Investments	—	2,003,245
Other Changes in Net Current Assets	—	559,397
Miscellaneous, Net	—	96,997
TOTAL	<u><u>\$27,242,828</u></u>	<u><u>\$29,319,304</u></u>

AUDITORS' OPINION

January 24, 1967

The Stockholders
Hawaiian Electric Company, Inc.:

We have examined the balance sheet of Hawaiian Electric Company, Inc. as of December 31, 1966 and the related statements of income, retained earnings and premium on common stock for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet

and statements of income, retained earnings and premium on common stock present fairly the financial position of Hawaiian Electric Company, Inc. at December 31, 1966 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and disposition of funds presents fairly the information shown therein.

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.

**NOTES TO
FINANCIAL
STATEMENTS**

**NOTE 1 — DEPRECIATION AND
FEDERAL INCOME TAXES**

The company computes the depreciation recorded in its accounts on a 4% sinking fund, group method, utilizing the remaining-life principle. For income tax purposes, the company computes depreciation using an accelerated method on qualifying properties and the straight-line method on the remainder of the plant.

Reductions in taxes currently payable of \$1,504,432 in 1966 and \$1,592,264 in 1965 arising from the use of accelerated depreciation and variations in service lives have been charged to income and credited to deferred income taxes. The company has consistently followed the policy of making no similar provision for deferred income taxes for reductions in taxes currently payable resulting from the use of the straight-line method rather than the sinking-fund method of computing depreciation and deducting interest and certain overhead expenses charged to construction. These differences between taxable income and book income amounted to \$1,944,770 in 1966 and \$1,318,588 in 1965.

It is the opinion of management, that, if in the future, income reported for income tax purposes should exceed book income as a result of the above amounts for which no deferred income taxes are being provided, taxes then payable on such excess represent allowable expenses in determination of future rates.

NOTE 2 — COMMON STOCK

In 1966 the common stockholders waived their preemptive rights to subscribe to \$7,000,000 principal amount of debentures, convertible into common stock, which the company plans to issue in early 1967.

NOTE 3 — PREFERRED STOCK

The following series of preferred stock were outstanding at December 31, 1966 and 1965:

	1966	1965
Series C, 4¼% — 150,000 shares ...	\$ 3,000,000	\$ 3,000,000
Series D, 5% — 50,000 shares ...	1,000,000	1,000,000
Series E, 5% — 150,000 shares ...	3,000,000	3,000,000
Series H, 5¼% — 250,000 shares ...	5,000,000	5,000,000
Series I, 5% — 89,657 shares ...	1,793,140	1,793,140
Series J, 4¾% — 250,000 shares ...	5,000,000	5,000,000
Series K, 4.65% — 175,000 shares ...	3,500,000	3,500,000
	<u>\$22,293,140</u>	<u>\$22,293,140</u>

NOTE 4 — FIRST MORTGAGE BONDS

The following series of first mortgage bonds were outstanding at December 31, 1966 and 1965:

	1966	1965
Series E, 3¼% due 1970.....	\$ 5,000,000	\$ 5,000,000
Series F, 3% due 1977.....	5,000,000	5,000,000
Series G, 3½% due 1981.....	3,000,000	3,000,000
Series H, 3½% due 1982.....	4,000,000	4,000,000
Series I, 3.45% due 1984.....	6,000,000	6,000,000
Series J, 4.70% due 1987.....	7,000,000	7,000,000
Series K, 4.75% due 1989.....	10,000,000	10,000,000
Series L, 4.65% due 1991.....	12,000,000	12,000,000
Series M, 4.45% due 1993.....	16,000,000	16,000,000
Series N, 4.55% due 1995.....	11,000,000	11,000,000
	<u>\$79,000,000</u>	<u>\$79,000,000</u>

These bonds are secured by a trust indenture which by its terms purports to be a lien on substantially all of the property of the company.

NOTE 5 — INVESTMENT CREDIT

The investment credit allowed under the Revenue Act of 1962 reduced the company's income tax liability by \$728,634 in 1966 and \$270,345 in 1965. The company has elected to amortize the entire amount of the investment credit over 28 years.

NOTE 6 — COMMITMENTS AND GENERAL

At December 31, 1966, the company had purchase commitments approximating \$11,500,000 in connection with its plant expansion program.

Pension costs for past services under the company's pension plan which have not been funded or otherwise provided for at December 31, 1966 are estimated to amount to \$3,275,000.

**STATEMENT
OF RETAINED
EARNINGS**

Year Ended December 31, 1966
(with comparative figures for 1965)

	1966	1965	Increase (Decrease)
NET INCOME	\$ 7,039,308	\$ 6,059,035	\$ 980,273
Deduct — Cash Dividends on Preferred Stock	1,079,907	1,079,907	—
Balance Before Common Dividends	\$ 5,959,401	\$ 4,979,128	\$ 980,273
Deduct — Cash Dividends on Common Stock	3,793,002	3,516,472	276,530
Addition to Retained Earnings After Dividends	\$ 2,166,399	\$ 1,462,656	\$ 703,743
Add — Transfers from Contributions in Aid of Construction ..	110,739	75,116	35,623
	<u>\$ 2,277,138</u>	<u>\$ 1,537,772</u>	<u>\$ 739,366</u>
BALANCE, JANUARY 1	17,333,008	15,795,236	1,537,772
BALANCE, DECEMBER 31	<u>\$19,610,146</u>	<u>\$17,333,008</u>	<u>\$2,277,138</u>

**STATEMENT OF
PREMIUM ON
COMMON STOCK**

Year Ended December 31, 1966
(with comparative figures for 1965)

	1966	1965
PREMIUM ON COMMON STOCK:		
Balance, January 1	\$15,582,464	\$11,238,917
Premium from Sale of 186,152 Common Shares at \$23.33 Per Share ...	—	4,343,547
Balance, December 31	<u>\$15,582,464</u>	<u>\$15,582,464</u>

See accompanying notes to financial statements.

STATISTICAL SUMMARY

FINANCIAL STATISTICS (Millions of Dollars)	1966	1965	1964	1963	1962	1961	1956
Utility Plant in Service	\$214.31	\$188.51	\$178.99	\$163.09	\$138.75	\$129.78	\$ 74.02
Construction in Progress	2.44	7.23	1.79	6.21	15.14	5.95	3.68
TOTAL UTILITY PLANT	\$216.75	\$195.74	\$180.78	\$169.30	\$153.89	\$135.73	\$ 77.70
Accumulated Depreciation	\$ 33.32	\$ 30.50	\$ 27.13	\$ 24.62	\$ 22.16	\$ 20.04	\$ 12.57
Capitalization (December 31)							
Bonds	\$ 79.00	\$ 79.00	\$ 68.00	\$ 68.00	\$ 57.00	\$ 57.00	\$ 28.00
Preferred Stock @ \$20 Par	22.29	22.29	22.29	22.29	24.93	20.19	12.00
Common Stock @ \$6 ² / ₃ Par	24.40	24.31	23.15	23.15	23.15	21.05	16.94
Common Stock Subscribed @ \$6 ² / ₃ Par	—	.08	—	—	—	—	—
Premium on Common Stock Issued ...	15.58	15.29	11.24	11.24	11.24	6.63	1.08
Premium on Common Stock Subscribed	—	.29	—	—	—	—	—
Capital Stock Expense	(1.06)	(1.05)	(.98)	(1.06)	(1.20)	(.98)	(.69)
Retained Earnings	19.61	17.34	15.80	14.53	13.86	11.66	8.11
TOTAL	\$159.82	\$157.55	\$139.50	\$138.15	\$128.98	\$115.55	\$ 65.44
Bond Interest	\$ 3.33	\$ 3.25	\$ 2.83	\$ 2.57	\$ 2.30	\$ 2.13	\$.93
Preferred Dividends	1.08	1.08	1.08	1.20	1.16	1.04	.44
Common Dividends	3.79	3.52	3.26	3.20	2.98	2.69	1.95
OPERATING STATISTICS							
Sales of Electricity	\$ 47.12	\$ 44.05	\$ 41.34	\$ 38.41	\$ 36.35	\$ 33.00	\$ 20.96
Other Operating Revenues .....	.19	.16	.16	—	.07	.07	.15
TOTAL OPERATING REVENUES ..	\$ 47.31	\$ 44.21	\$ 41.50	\$ 38.41	\$ 36.42	\$ 33.07	\$ 21.11
Operating Expenses:							
Fuel Oil	\$ 9.37	\$ 8.73	\$ 8.60	\$ 7.94	\$ 7.76	\$ 6.85	\$ 4.47
Operation — Production,							
Transmission, Distribution	4.08	4.09	3.93	4.07	3.56	3.23	2.08
Operation — Customer Accounts,							
Sales, Administrative and General ..	5.92	5.61	5.20	4.80	4.40	4.22	2.81
Maintenance	3.13	2.93	2.95	2.38	2.37	1.84	1.88
Depreciation	4.50	4.19	3.67	3.15	2.87	2.56	1.39
Taxes Other than Income Taxes	5.21	4.73	4.36	4.05	3.45	3.09	1.76
Federal Income Taxes	2.43	2.51	2.12	2.63	3.08	3.67	2.15
Federal Income Taxes Deferred	1.32	1.42	1.41	1.11	1.09	.60	.19
Investment Credit Deferred, Net .....	.69	.24	.48	.29	.12	—	—
State Income Taxes .....	.38	.30	.26	.29	.33	.38	.32
State Income Taxes Deferred .....	.18	.17	.16	.13	.13	.08	—
Total Operating Expenses	\$ 37.21	\$ 34.92	\$ 33.14	\$ 30.84	\$ 29.16	\$ 26.52	\$ 17.05
Operating Income	10.10	9.29	8.36	7.57	7.26	6.55	4.06
Other Income .....	.13	.07	.16	.09	.52	.11	—
Income Deductions and Interest Charges	(3.19)	(3.30)	(2.61)	(2.26)	(1.82)	(1.84)	(.98)
NET INCOME	\$ 7.04	\$ 6.06	\$ 5.91	\$ 5.40	\$ 5.96	\$ 4.82	\$ 3.08
COMMON SHARES (Millions)*	3.66	3.65	3.47	3.47	3.47	3.16	2.54
COMMON STOCK STATISTICS							
Earned Per Share:							
On Average Shares	\$ 1.63	\$ 1.42	\$ 1.39	\$ 1.21	\$ 1.48†	\$ 1.20	\$ 1.15
On Year End Shares	1.63	1.37	1.39	1.21	1.38†	1.20	1.04
Dividends Paid Per Share	1.04	1.00	.94	.92	.92	.855	.83
Equity Per Share	\$ 16.00	\$ 15.43	\$ 14.17	\$ 13.78	\$ 13.55	\$ 12.15	\$ 10.01
MISCELLANEOUS STATISTICS							
Kilowatt Hour Sales (Billions)	2.28	2.11	1.97	1.80	1.69	1.52	.89
Average Annual Residential Use (KWH) ..	6,234	6,058	5,803	5,588	5,349	5,085	3,983
Revenue Per Residential KWH	2.52¢	2.55¢	2.57¢	2.61¢	2.65¢	2.66¢	2.85¢
Customers, December 31 (Thousands)							
Residential	125	120	115	111	107	103	83
Total	146	141	135	130	126	122	99
Generating Capability, December 31							
(Thousand KW)	709	623	623	540	457	457	280
Peak Demand (Thousand KW)	488	445	426	389	372	341	204

* Reflects 3 for 1 split made in 1962. Prior years adjusted.

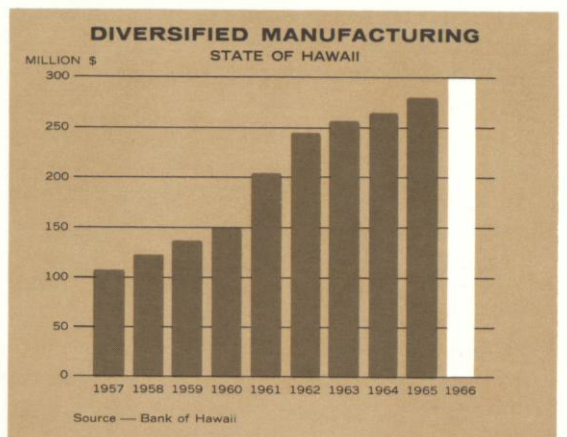
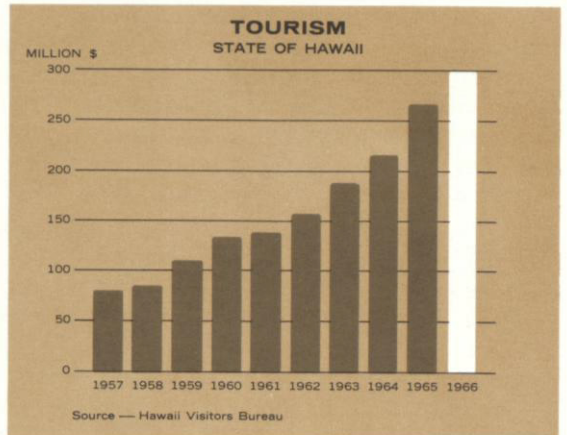
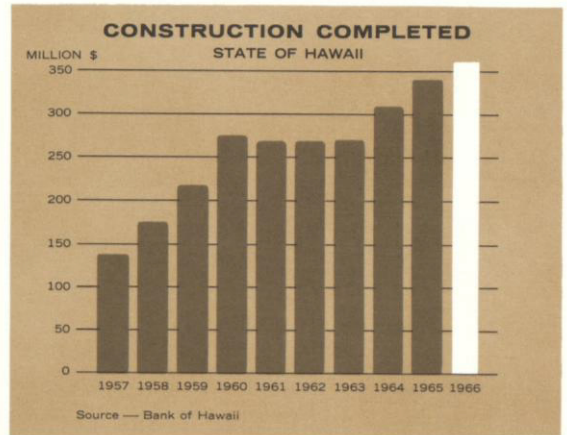
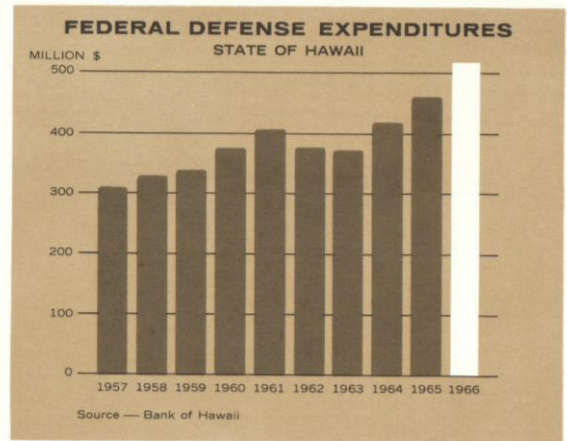
† Includes non-recurring dividend payment from merchandising subsidiary amounting to 14 cents on average shares and 13 cents on year end shares.

needed to meet the 1967 capital expenditures. We have received approval from the Public Utilities Commission for the sale of \$13,000,000 of first mortgage bonds and \$7,000,000 of convertible debentures. It is anticipated that the financing will take place in the first quarter of the year. On December 20, 1966 the stockholders waived their preemptive rights on this issue of convertible debentures.

Capital Expenditures Utility capital expenditures in 1966 amounted to \$22,369,919. Of this, \$7,655,882 was for the completion of Waiiau Unit No. 7. We spent \$5,050,427 on our transmission system, \$2,289,422 of which went toward the construction of two major transmission substations — one at Halawa and one at Pukele. Distribution plant additions in 1966 for underground facilities cost \$3,142,128. Presently, approximately 49 per cent of our investment in distribution lines is in underground facilities.

Expansion Program Waiiau, on the shore of Pearl Harbor, was a small rural area when we established our second power plant site there in 1937. Today, our generating station at Waiiau is a major source of island power, surrounded by commercial enterprises and residential subdivisions.

The seventh unit at Waiiau was placed in commercial operation on December 1, 1966. This is the largest one installed to date on the Hawaiian Electric system, with a maximum capability of 86,000 kilowatts. Total capability of our generating system is now 709,000 kilowatts.



Waiau Generating Plant's Unit 7 (at left in photo) went into operation in December. With 86,000-kilowatt capability, unit is largest yet on Company system

Hawaiian Electric created beach park in front of Kahe Power Plant. Company planted 100 coconut trees and grass, leveled sand, installed barbecues and showers

As No. 7 went into operation, engineering was completed on a companion turbine-generator for Waiau No. 8. Construction of this unit is to start in the spring of 1967 and will be completed in 1968.

Hawaiian Electric began construction of its first 138,000-volt transmission lines in 1958 and has added to them until at present there are 71.45 circuit miles in service. In 1966 the 138,000-volt Pukele substation was completed in upper Palolo Valley. Pukele will serve the rising power demand in the Honolulu-Waikiki area.

At the same time, a sixth major substation was under construction high in Halawa Valley. When completed in the spring of 1967 at an initial cost of \$2,250,000, it will be our largest and most important, serving as the major switching point for our 138,000-volt system. As such, it will deliver power from our Waiau and Kahe generating stations to the Koolau, Honolulu and Pukele system. Eventual additions to the substation will bring the investment to about \$5,000,000 and make it twice the size of any other switching station on our system.

In 1966 construction of a base yard was started at the Company's new power plant site at Heeia-Kea on Kaneohe Bay. The yard, including warehouses, will serve the rapidly developing windward side of the island. The area will be professionally landscaped with generous plantings of trees, plants and shrubs.

Our modern generating plants are automated to operate efficiently 'round the clock, but under human supervision. Since 1963 we have used a microwave relay system, centered atop our Ward

Avenue engineering and operating headquarters. The microwave system enables us to monitor and to operate controls at power plants and substations and to communicate with service crews around the island.

In 1966 the system was extended with installation of a reflector on Koolau Ridge above Moanalua Valley. The saucer-like reflector and supporting tower are corrosive-resistant all-aluminum. The reflector is a valuable new link in our microwave network.

New Equipment Several pieces of interesting mechanical equipment were added, helping to speed operations, cut costs and improve service to the public.

Heretofore, Hawaiian Electric crews have kept overhead insulators clean of dirt and salt deposits by washing them with a hose held by a man raised in a bucket on a boom carried by a truck. This year we acquired a wash truck with a high boom fitted with a hose and nozzle, similar to those used by firemen. This new rig reaches high enough to spray water directly onto the insulators, and it is not necessary to send a man up in a bucket.

Another high-lifter acquisition is a truck with a 65-foot boom that picks up heavier loads than any previous boom. It will greatly facilitate placing transformers on poles.

In the opposite direction, underground, we put into use a highly maneuverable truck with special equipment for pulling cables through difficult places.



"Dishes" installed atop Koolau Ridge added important link to our microwave communications system. Photo glimpses growth of Kaneohe area below

Major new 138,000-volt substation high in Halawa Valley will be primary power source for Honolulu when completed in June, 1967

Economies in Oil During its first decade Hawaiian Electric used coal as fuel, but in 1901 changed to oil and has used oil ever since. The Company is moving to the use of heavier, less costly oil of 1,500 viscosity to effect savings on this large-cost item. Our customers benefit from savings on fuel oil, as all rate schedules contain a clause which provides for a reduction in cost of electricity to our customers when fuel oil prices decline.

The generating units at Kahe and Unit 7 at Waiau were designed to use 1,500 viscosity oil from the start. In 1966 we made alterations to all the earlier units at Waiau to permit a change-over to heavier oil.

Community Betterment A utility, since it is engaged in public service, not only shares in a community's growth and advancement; it also shares its problems. One of the major problems arising from community growth is the dual one of preserving a clean atmosphere and a beautiful environment. Hawaiian Electric puts forth great effort in these areas because natural beauty is of special significance to us in the islands.

In 1924 we began placing lines underground and have carried the program forward ever since. Efforts have been concentrated in the downtown and Waikiki districts, but underground is installed in a number of other areas throughout the Island of Oahu. In recent years, with the development of new methods and equipment, the cost gap between overhead and underground has steadily narrowed, bringing underground wiring more within reach of homeowners. Full or partial underground

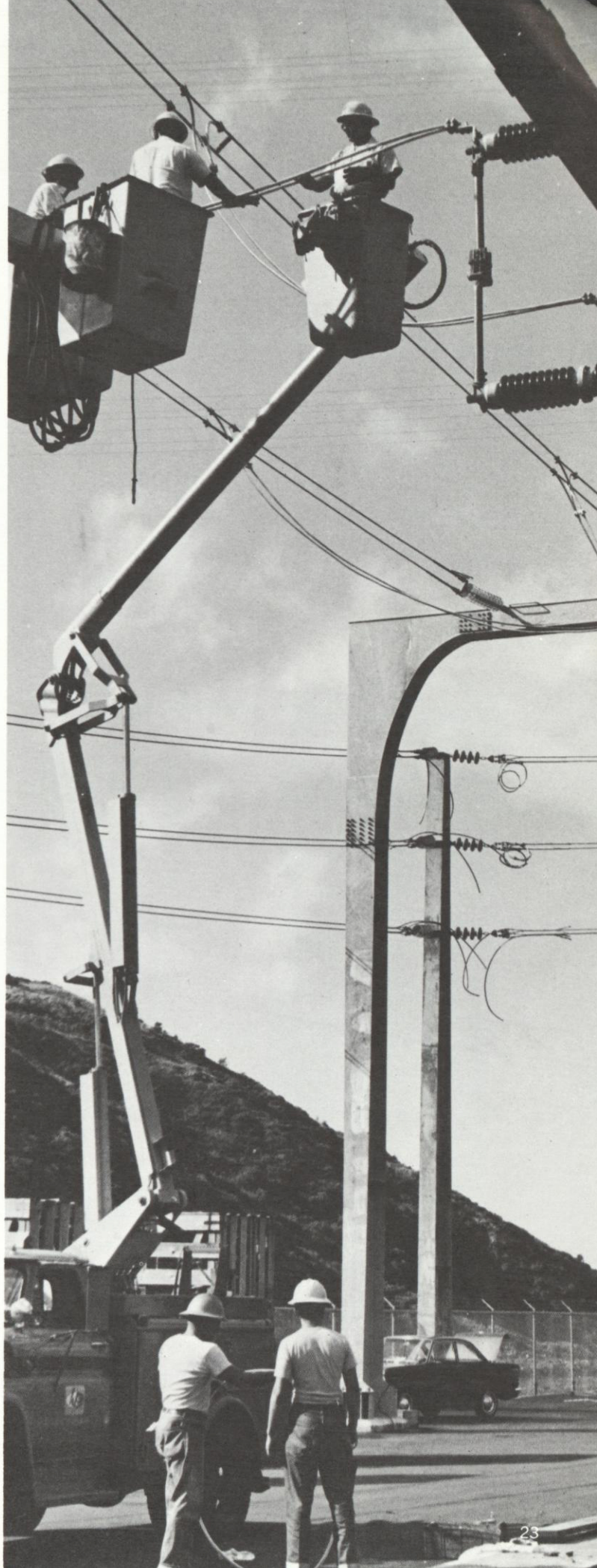
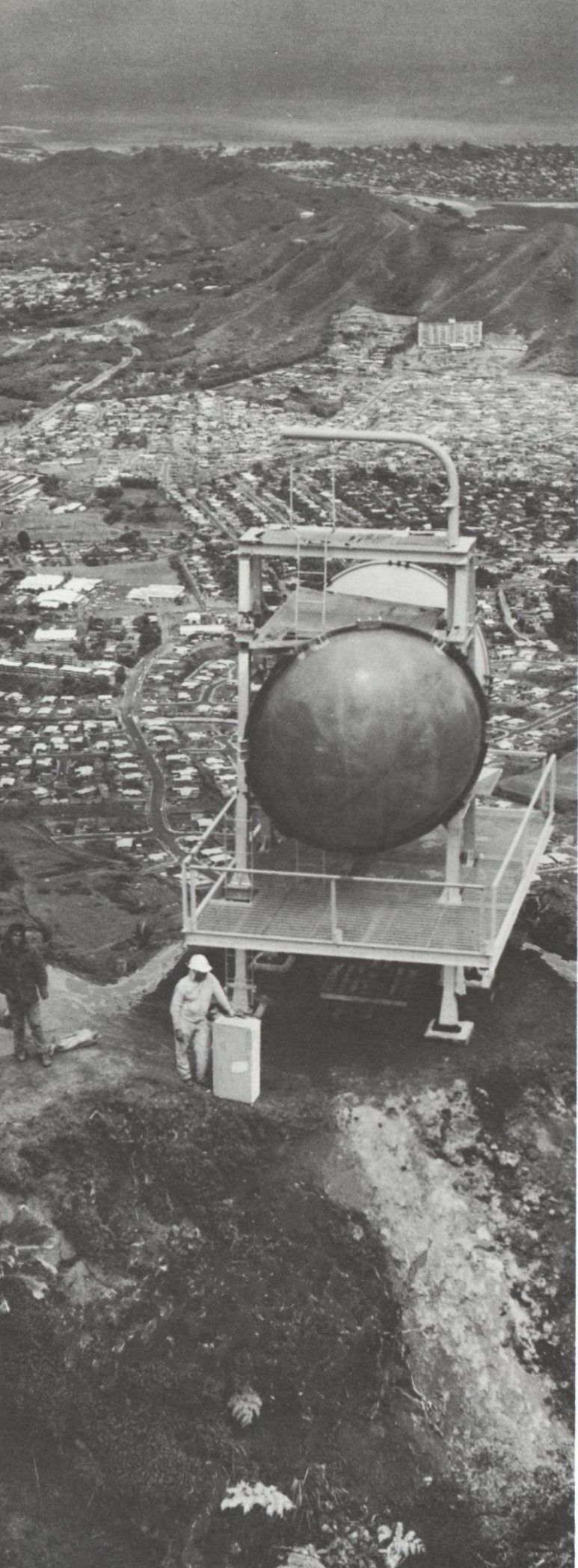
facilities were installed at 16 new subdivisions with 1,478 homesites in 1966.

Design and landscaping of our power plants and substations to make them blend pleasingly into their Hawaiian surroundings is another long standing policy which has been commended by Hawaiian civic and business groups.

Our Area Development Office in 1966 continued its active interest in development of methods to realize the potential offered by our surrounding sea. In addition, we are spearheading a business-city-state industrial development project to identify and attract substantial new industry. Our community development interests are also exercised through our participation in the Oahu Development Conference, a citizens' organization devoted to sound community planning.

University Research Grants The Company established a program for research awards at the University of Hawaii, providing for grants to faculty members in engineering, the social sciences and business administration. Each award will run for two years. The first three awards were made in 1966.

The University of Hawaii is an outstanding university and an important factor in the growth of the community. These grants help the university attract promising faculty members and will make available research opportunities to men presently on the faculty. In addition to helping the community in this way, the Company stands to gain valuable knowledge through the special research being carried on.



Customers Hawaiian Electric serves light and power to residents and businesses of Oahu, its private and civic institutions, agricultural and other heavy industry, and military establishments. The number of individuals and establishments listed on our books at year's end as customers was 146,465. Our residential customers continued to show a high preference for electricity and acceptance of all-electric living. As a result, residential customers used an average of 6,234 kilowatt hours, higher than the national average.

Strong Sales Program Hawaiian Electric conducts a strong campaign of advertising and promotion to support the leadership enjoyed by the electrical industry and to improve public acceptance of all-electric living.

The selling program is carried on in close cooperation with manufacturers, distributors, dealers, builders and land developers, especially with the unifying help of the Pacific Coast Electrical Association (Hawaii). That cooperation was recognized by a meaningful award: the Management Achievement Award for Industry Communications of the International Association of Electrical Leagues. It was won by PCEA (Hawaii) in competition with similar leagues all over North America and stood as a tribute to the productive working relationship between the Association and Hawaiian Electric.

Hawaiian Electric again received awards from the Public Utilities Advertising Association, Honolulu Ad Club and Artist and Art Directors Associa-

tion of Hawaii for advertisements in newspapers and magazines, on television and radio.

Building Activity High In Hawaii, as elsewhere in the nation, tight mortgage money slowed construction of single-family dwellings. Nevertheless, all construction completed reached a new all-time high, running an estimated 5½ per cent ahead of 1965. For the second consecutive year Honolulu ranked fifth among cities in the nation in dollar volume of building permits issued. A backlog of demand for new homes is building up and we expect considerable activity when more mortgage financing is available.

New homes totaled 3,374 and new apartment units, 2,597. A record 92 per cent of all new homes and 74 per cent of all new apartments were all-electric.

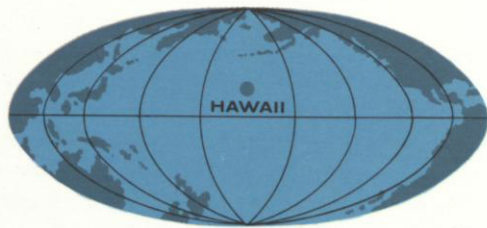
Appliance Sales More than 71,888 major appliances were sold in 1966 for new and existing homes, a 7.2 per cent increase over the previous year. Sales to existing homes alone increased 10.9 per cent.

Major appliances making the greatest advance were air conditioners and dishwashers which showed sales gains of 62 and 14 per cent, respectively.

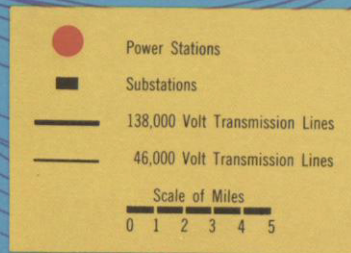
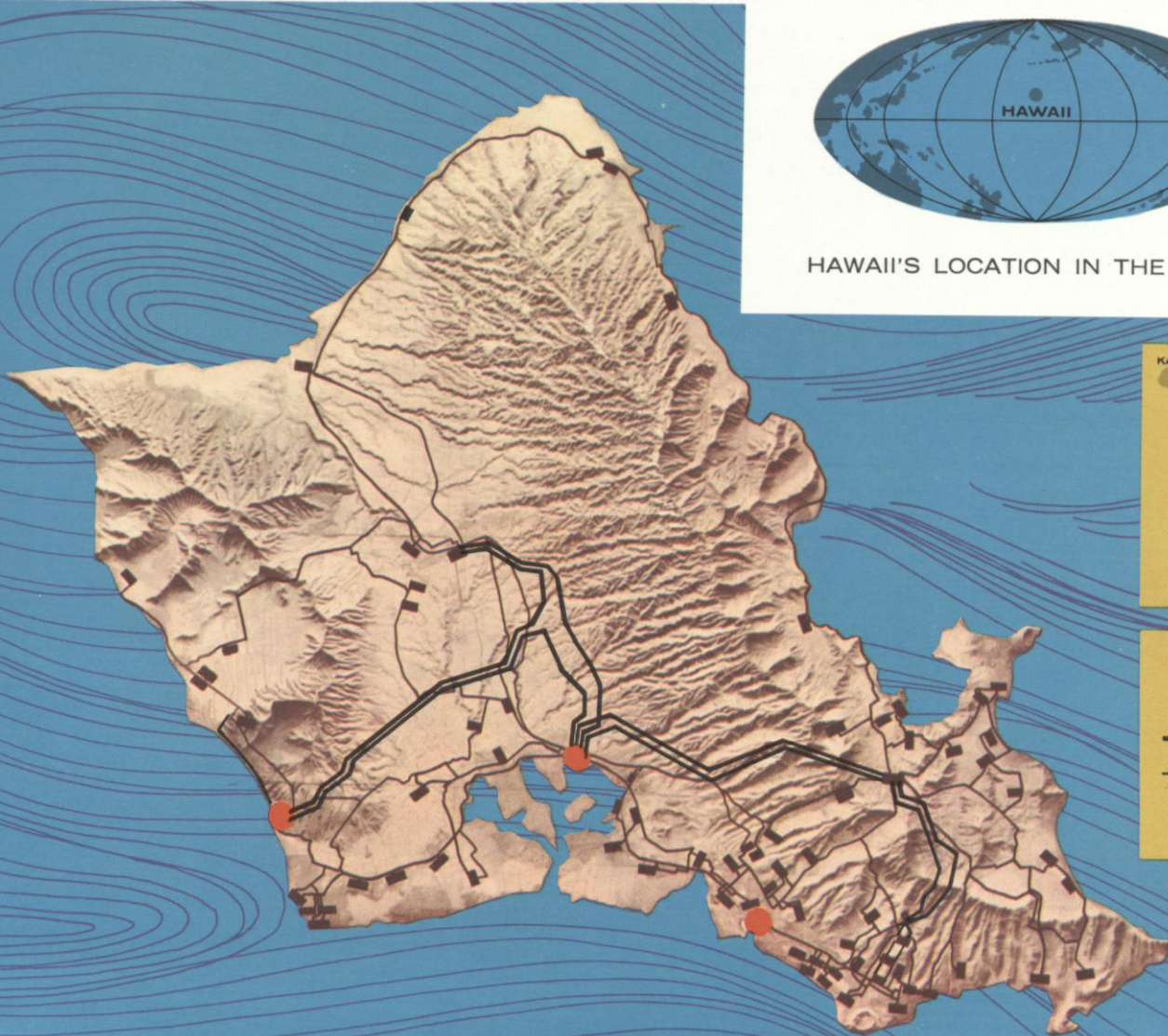
Our People A company's greatest resource is its people. The men and women of Hawaiian Electric form a community of workers serving in the public interest. At year's end the Company had 1,382

POWER IN THE BILLIONS

Hawaiian Electric's high-voltage power network ranges from coasts to mountain ridges of Oahu, its service area, capital island and population center of Hawaii State. With 625,000 people and Honolulu its major city, Oahu used 2¼ billion kwh of power during year



HAWAII'S LOCATION IN THE PACIFIC



Linemen pause in mid-air on completion of a class in aerial basket operation. Modern machines and methods call for new employee skills

employees and a record payroll for the year of more than \$12,000,000.

A majority of the employees, 77 per cent, are represented by the International Brotherhood of Electrical Workers, Local 1260, AFL-CIO. Members of our security force are represented by Independent Local 650 of the United Plant Guard Workers of America. We have been operating under a three-year IBEW agreement which terminated on February 28, 1967. In January, 1967 the Company began negotiations for a new contract. A three-year contract with the UPGWA is in effect through April 30, 1967. Negotiations for a renewal of this contract are scheduled.

PAYROLL & BENEFITS

	1966	1965
WAGES FOR PRODUCTIVE WORK	\$10,820,697	\$10,667,736
BENEFITS		
Vacations	647,445	611,935
Holidays	489,672	425,546
Sickness	290,153	256,761
Leaves and Excused Absences	55,323	68,643
Pension Plan	1,107,782	1,038,690
Cash Pensions	24,913	30,870
Group Life Insurance	123,392	90,122
Medical and Hospital Plans	330,659	306,763
Social Security Insurance	375,675	245,533
Unemployment Insurance	79,231	101,320
Other Employee Benefits	75,696	61,562
	3,599,941	3,237,745
TOTAL	\$14,420,638	\$13,905,481

Training and Upgrading Training and upgrading of employees is basic to Hawaiian Electric personnel

policy. As our system grows larger and more complex, our people must improve and increase their skills to operate the new machines and instruments of the electrical industry.

An indentured apprenticeship program calls for four years of applied work and related training. During 1966, 23 apprentices were graduated in 8 trades. Another 80 employees completed self-improvement courses, and 65 were enrolled in supervisory training programs.

During the summer we employed 51 students, the highest number since the start of this program at Hawaiian Electric in 1953. The purpose of this program is to encourage young people planning careers with a utility by helping them earn extra tuition money during their college vacations. This program has become a source of trained people.

Departmental Changes As a result of continued Company expansion, important improvements were made in our internal operations.

The Engineering Department was divided into two departments, System Engineering and Power Plant Engineering, under separate managers. Sales functions of the Commercial and Promotional Departments were combined, which centralized all sales activities and achieved economies making for a more effective sales organization. Customer extension planning activities were made a part of the Engineering Department, and a new Customer Service Department was formed to provide improvements in our customer service operations at every step from application to billing.



BOARD OF DIRECTORS

PHILIP E. SPALDING / Chairman of the Board
RUSSELL H. HASSLER / President*
T. A. COOKE / Trustee of Estates
HAROLD C EICHELBERGER / President, Amfac, Inc.
G. W. FISHER / Past President, Bishop Trust Company, Limited
LEWIS W. LENGNICK / Senior Vice President, Engineering and Operations
DUDLEY C. LEWIS / Attorney-at-Law, Lewis, Saunders & Sharpless
FRED P. LOWREY / President, L&C, Limited
J. SCOTT B. PRATT, III / President, Hawaiian Trust Company, Limited
H. M. RICHARDS / Assistant Secretary, Castle & Cooke, Inc.
GILBERT W. ROOT / Executive Vice President, Trust, First National Bank of Hawaii
H. V. von HOLT / Estate Management
HEATON L. WRENN / Attorney-at-Law, Anderson, Wrenn & Jenks
RALPH T. YAMAGUCHI / Attorney-at-Law, Yamaguchi & Tanaka

OFFICERS

PHILIP E. SPALDING / Chairman of the Board
RUSSELL H. HASSLER / President* and Director
LEWIS W. LENGNICK / Senior Vice President, Engineering and Operations, and Director
CARL J. SCHIFFERS / Administrative Vice President
HERBERT HEINRICH / Vice President, Commercial
RICHARD L. SUMMERS / Vice President and Secretary
CARL H. WILLIAMS / Vice President, Planning
JESSE R. ZEIGLER / Vice President, Operations
EUGENE A. HELBUSH / Controller and Assistant Treasurer
WILL B. JOHNSTONE, JR. / Treasurer
RICHARD E. BELL / Assistant Secretary and Director of Area Development
EDWARD A. MURTY / Assistant Treasurer and Budget Director
ARTHUR C. SLOGGETT / Assistant Secretary and Administrator of Land and Rights of Way

DEPARTMENT MANAGERS

WILLIAM J. FROOME / System Operation
FRANK R. HICKS / Generation
CURTIN A. LESER / Personnel
F. R. MONTGOMERY / Power Plant Engineering
C. DUDLEY PRATT, JR. / Distribution
J. A. ROLFING, JR. / System Engineering
KENNETH F. STRETCH / Customer Service
FRANCIS H. WILLIAMS / Sales & Promotional
G. MURRAY WINSLEY / Purchasing and Stores

TRANSFER AGENTS

MORGAN GUARANTY TRUST COMPANY OF NEW YORK / New York
WELLS FARGO BANK / San Francisco
OFFICE OF THE COMPANY / Honolulu

REGISTRARS

THE CHASE MANHATTAN BANK / New York
THE BANK OF CALIFORNIA National Association / San Francisco
FIRST NATIONAL BANK OF HAWAII / Honolulu

* Appointed President July 29, 1966



HAWAIIAN ELECTRIC COMPANY, INC.
P. O. BOX 2750
HONOLULU, HAWAII 96803

