

ATTACHMENT E: FINANCIAL COMPLIANCE

HECO maintains its financial statements in conformity with U.S. generally accepted accounting principles. Proposals should consider in particular HECO's accounting requirements to conform to the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810 ("Consolidation") and 840 ("Leases"). HECO will not execute a contract that will require Consolidation or contracts that contain a Capital Lease with an entity such as a fuel supplier or independent power producer. FASB ASC Topic 810 and 840 guidance is included herein. HECO will need to engage in very specific evaluations of the proposal and the potential supplier's company structure to determine the application of ASC Topic 810 and 840. To avoid any Consolidation issues, HECO requests that the entity meet at least one of the following criteria: 1) be deemed a "business" wherein substantially all of the entity's sales are not made to HECO but are made to other customers; 2) be structured such that the entity would not be deemed a variable interest entity ("VIE"); or 3) if the entity is deemed a VIE, then an agreement would need to be structured wherein HECO is not the primary beneficiary of the entity. To avoid any capital lease issues, HECO requests that the proposal meet at least one (1) of the following criteria: 1) does not contain an arrangement that is considered a lease; or 2) does not contain any one (1) of the four (4) capital lease criteria: a) an automatic transfer provision that gives HECO the facility at the end of the term, or b) a bargain purchase option that allows HECO to purchase the facility at a bargain rate, or c) the contract term cannot exceed 75% of the estimated economic life of the facility, or d) the present value of the minimum lease payments cannot equal or exceed 90% of the fair value of the facility. An arrangement is considered to contain a lease if the contract is structured such that it contains either 1) provision(s) that will grant HECO the right to control the facility or operations while obtaining more than 15% of the total facility's output; 2) provision(s) that sets the price that are not fixed nor tied to some market indices while it is remote that another party will take more than 15% of the facility's output.

FASB ASC Topic 810 guidance:

The Financial Accounting Standards Board Accounting Standards Codification Topic 810, "Consolidations" (previously known as FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" as amended by Statement of Financial Accounting Standards No. 167, "Amendments to FASB Interpretation No. 46R") may require HECO to consolidate entities such as a fuel supplier or independent power if the entities are deemed variable interest entities ("VIE") and if HECO is the primary beneficiary of the VIE. In general, VIEs are entities whose total equity at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest. If HECO enters into a contract with an entity that is deemed a VIE, a determination then needs to be made whether or not HECO is the primary beneficiary. In general, the primary beneficiary is the entity that 1) has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, and 2) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. If HECO is the primary beneficiary, HECO will be required to consolidate the VIE into HECO's financial statements. In order for HECO to determine whether an entity is a VIE or primary beneficiary, the entity will be required to provide sufficient financial information to support the conclusions made by HECO. Entities deemed to be a "business" under the accounting guidance of FASB ASC 810 do not need to be evaluated under FASB ASC 810 and would not be consolidated. In general, for entities to be deemed a "business" under FASB ASC 810, the entity cannot be among other things "...designed so that substantially all of its activities either involve or are conducted on behalf of the reporting entity and its related parties." In other words, substantially all of an entity's sales cannot be made primarily to HECO and its subsidiaries. HECO will require entities to provide sufficient information to support an entity's claim that it is deemed a "business" under FASB ASC 810.

FASB ASC Topic 840 guidance:

The Financial Accounting Standards Board Accounting Standards Codification Topic 840, "Leases" may require HECO to reflect the capital lease on HECO's balance sheet as both an asset and a corresponding liability, which in effect is similar to that which would result if HECO had borrowed money and purchased the asset. To determine whether or not the contract or arrangement contains a capital lease, two (2) general thoughts should be considered; 1) does the contract contain a lease, and 2) if the contract contains a lease, is it a capital lease. In general, an arrangement is considered a lease if it has any one of the following three (3) conditions: 1) HECO has the right to control the facility, while obtaining more than a minor amount of the output; 2) HECO has the right to control physical access to the facility, while obtaining more than a minor amount of the output; or 3) it is remote that another party will take more than a minor amount of the outputs produced and sold and the price of the output is not fixed nor tied to market. If any one (1) of the three (3) conditions above is met, then the contract is subject to the lease classification criteria to determine whether the lease should be accounted for as an operating or capital lease. The lease is considered a capital lease if the contract meets any one (1) of the following four (4) criteria: 1) HECO automatically receives ownership of the facility at the end of the lease term; 2) HECO has the option to purchase the facility at a bargain (discount) price; 3) the lease term is 75% or more of the remaining estimated economic life of the facility; or 4) HECO's present value of the minimum lease payments equals or exceeds 90% of the fair value of the facility.