

PERFORMANCE INCENTIVE MECHANISM PROVISION (continued)

Collective Shared Savings Mechanism ("CSSM")

The CSSM is a rewards-only mechanism to incentivize improved control over non-ARA costs.

Under the CSSM, the Companies will be allowed to retain a portion of any reduction in the sum of fuel, purchased power, and Major Projects Interim Recovery ("MPIR") mechanism / Exceptional Project Recovery Mechanism ("EPRM") costs for each future performance year in comparison to a base year target. This assures that any reward to the Companies is directly associated with a corresponding reduction in customer bills.

The CSSM shall be applicable to revenues arising from fuel expense for utility generation, purchased energy and purchased capacity costs, costs of new contractual resources acquired through requests for proposals ("RFPs") and purchased power agreements ("PPAs"), and costs of new utility projects not funded with revenues governed by the Annual Revenue Adjustment ("ARA") provision, which are collectively recovered through the Energy Cost Recovery Clause ("ECRC"), Purchased Power Adjustment Clause ("PPAC"), and MPIR/EPRM. The CSSM Performance Metric is the sum of the ECRC, PPAC, and MPIR/EPRM revenues, excluding revenue taxes, measured each calendar year, which is the Performance Year.

The CSSM Target represents a calculated amount of collective ECRC, PPAC, and MPIR/EPRM revenue, excluding revenue taxes, against which the Performance Year Metric is compared. The CSSM Target is calculated for a Base Year with appropriate adjustments for inflation and Performance Year fuel prices and system generation.

The CSSM does not have a potential penalty and does not have a potential maximum reward.

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CSSM Formula

$$\text{CSSM Target}_n = ((\text{EPRM}_0 + \text{PPAC}_0 + \text{Target ECRC}_n) / \text{System Generation}_0) \times \text{System Generation}_n$$

CSSM Target shall be the sum of EPRM_0 , PPAC_0 , and Target ECRC_n , where that sum is further divided by System Generation in the Base Year and multiplied by System Generation in the Performance Year.

$$\text{CSSM Performance Metric} = \text{EPRM}_n + \text{PPAC}_n + \text{Metric ECRC}_n$$

Where EPRM_0 and EPRM_n are the annual EPRM and MPIR Adjustments in the CSSM Base Year and in the Performance Year, respectively, as clarified more specifically below;

Where PPAC_0 and PPAC_n are the PPAC amounts in the CSSM Base Year and in the Performance Year, respectively, as clarified more specifically below;

$$\text{Target ECRC}_n = \text{IPP Energy Cost}_0 + \text{Target Fuel Costs}$$
, as defined below;

$$\text{Metric ECRC}_n = \text{IPP Energy Cost}_n + \text{Metric Fuel Costs}$$
, as defined below;

$\text{System Generation}_0$ and $\text{System Generation}_n$ are the sum of IPP and utility generation in the CSSM Base Year and in the Performance Year, respectively, on a net-to-system basis; and

$\text{Utility Generation}_0$ and $\text{Utility Generation}_n$ are the kWh-sales generated from a particular utility fuel type in the CSSM Base Year and in the Performance Year, respectively.

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Calculation of the CSSM

The Base Year shall be calendar 2021.

Base Year Recovery Heat Rate shall be the adjusted target heat rate for the applicable fuel type's utility generation in the Base Year, as provided for in the Reconciliation Adjustment of the ECRC. If there is no target heat rate for the applicable fuel type, the Base Year Recovery Heat Rate shall be the actual sales heat rate for the applicable fuel type in the Base Year.

Performance Year Recovery Heat Rate shall be the adjusted target heat rate for the applicable fuel type's utility generation in the Performance Year, as provided for in the Reconciliation Adjustment of the ECRC. If there is no target heat rate for the applicable fuel type, the Performance Year Recovery Heat Rate shall be the actual sales heat rate for the applicable fuel type in the Performance Year.

Fuel Price in the Performance Year shall be the revenue eligible for recovery for that fuel type in the Reconciliation Adjustment of the ECRC in the Performance Year (excluding the Year-to-Date Fossil Fuel Cost Risk Sharing Adjustment), divided by the mmbtu eligible for recovery after application of the Performance Year Recovery Heat Rate for that fuel type in the Performance Year. If there is a fuel type in the Base Year that is not included in the Performance Year, the Company should establish a proxy price based on proportional price changes in a most similar fuel. Where Fuel Price in the Base Year is determined based on an index that remains available in the Performance Year, the Fuel Price in the Performance Year can be directly inferred.

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Target Fuel Costs = $\sum(\text{Fuel Prices}_n \times \text{Heat Rates}_0 \times \text{Utility Generation}_0)$

Target Fuel Costs are the part of Target ECRC component of the CSSM Target that is the sum of, across all applicable fuel types, the applicable Base Year Recovery Heat Rate for that fuel type multiplied by recorded sales for that fuel type in the Base Year multiplied by the Fuel Price in the Performance Year for that fuel type.

Metric Fuel Costs = $\sum(\text{Fuel Prices}_n \times \text{Heat Rates}_n \times \text{Utility Generation}_n)$

Metric Fuel Costs are the part of Metric ECRC component of the CSSM Performance Metric that is the sum of, across all applicable fuel types, the applicable Performance Year Recovery Heat Rate for that fuel type multiplied by the recorded sales for that fuel type in the Performance Year multiplied by the Fuel Price in the Performance Year for that fuel type.

IPP Energy Cost₀ shall be the sum of, for all IPP included in the Purchased Energy Expense in the Base Year from the Reconciliation Adjustment of the ECRC, the product of that IPP's applicable purchased kWh from the Base Year multiplied by the applicable energy payment rate for that IPP's purchased energy in the Performance Year. In the case where there is no applicable payment rate in the Performance Year for that particular IPP, the most recent applicable energy payment rate used in a previous Performance Year may be used and further indexed for inflation to the current Performance Year using the Gross Domestic Product Price Index ("GDPPI").

IPP Energy Cost_n shall be the Purchased Energy Expense in the Performance Year from the Reconciliation Adjustment of the ECRC.

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PPAC₀ shall be the expenses net of revenue taxes eligible for recovery in the PPAC in the Base Year, escalated by any applicable inflation or escalation terms provided for in the applicable PPA for purchased power costs that are recoverable in the PPAC in the Base Year. If there are no inflation or escalation terms provided for in the applicable PPA for a particular PPAC-recoverable expense that is included in the Base Year, then those PPAC-recoverable expenses will be included in PPAC₀ without adjustment. Compensable curtailed energy expense and liquidated damages that are included in the PPAC in the Base Year will also be included in PPAC₀ without adjustment.

PPAC_n shall be the expenses net of revenue taxes, including applicable compensable curtailed energy expense and liquidated damages, eligible for recovery in the PPAC in the Performance Year.

EPRM₀ shall be the Base Year EPRM and MPIR cost recovery amounts included in the Revenue Balancing Account Provision's Target Revenue, escalated for inflation from the Base Year to the Performance Year using the percentage change in the GDPPI between the Base Year and the Performance Year.

EPRM_n shall be the EPRM and MPIR cost recovery amounts included in the Revenue Balancing Account Provision's Target Revenue in the Performance Year.

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Calculation of CSSM Performance Year Savings

CSSM Performance Year Savings shall be the CSSM Target less CSSM Performance Metric. The CSSM Performance Year Savings shall not be less than zero.

The Company CSSM Financial Incentive shall be the CSSM Performance Year Savings multiplied by 20%.

The Performance Year shall be the Evaluation Period. The first Evaluation Period for the CSSM shall begin on January 1, 2023.

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