

ANNUAL REVENUE ADJUSTMENT PROVISION

Maui, Lana'i and Moloka'i Divisions

Annual Revenue Adjustment Provision ("ARA")

I. Purpose

The ARA determines annual changes in utility revenue levels during a Multi-Year Rate Period, determined by the formula and provisions set forth below and defined herein. The ARA was established in Decision and Order No. 37507 in Docket No. 2018-0088 and remains subject to continuation or modification by the Commission as described therein.

II. Definitions

- a) The Fall Revenue Report is the filing the Company shall make on or before October 31 of each year per the RBA Provision.
- b) The Spring Revenue Report is the filing the Company shall make on or before March 31 of each year per the RBA Provision.
- c) The Adjustment Year shall be the year in which the applicable ARA takes effect beginning January 1 of that year.
- d) The Evaluation Period is defined as the twelve month period ending December 31 of each calendar year preceding the Adjustment Year. The Evaluation Period is used to determine achieved earnings and any sharing of such earnings per the Earnings Sharing Adjustment.
- e) The Authorized Return on Equity ("Authorized ROE") shall be the percentage rate of return on equity capital approved by the Commission in the last issued Decision & Order in the Company's most recent test year general rate case or other proceeding in which the Company's rate of return on equity capital was approved by the Commission.

ANNUAL REVENUE ADJUSTMENT PROVISION (continued)

Maui, Lana'i and Moloka'i Divisions

f) The revenue adjustments determined by this ARA Provision are to be recovered through the Revenue Balancing Account ("RBA") Rate Adjustment, subject to review as prescribed in the RBA Provision.

g) Earnings Sharing Adjustment shall be quantified for the Evaluation Period, with the resulting determined revenue adjustment amount recovered from or returned to customers as prescribed in the RBA Provision, pursuant to the earnings sharing percentages and procedures described herein.

III. Annual Revenue Adjustment Formula

A. Calculation of ARA Adjustment

The ARA Adjustment shall be calculated for the Fall Revenue Report and shall be subject to update based on the Spring Revenue Report, based on the formula described below.

The ARA Adjustment applicable for the Adjustment Year shall equal the Compounded Portion of the ARA Adjustment plus the Non-Compounded Portion of the ARA Adjustment.

The ARA Adjustment equals the Compounded Portion of the ARA Adjustment plus the Non-Compounded Portion of the ARA Adjustment.

Compounded Portion of the ARA Adjustment equals the I-Factor Amount minus the X-Factor Amount and minus the Multiplicative CD Component Amount.

Non-Compounded Portion of the ARA Adjustment equals the Z-Factor Amount minus the Subtractive CD Component Amount.

Where, as further described below:

I-Factor Amount: Annual change in inflation based on estimated change in Gross Domestic Product Price Indicator, multiplied by the Basis for the Compounded Portion of the ARA Adjustment.

X-Factor Amount: Predetermined annual productivity factor multiplied by the Basis for the Compounded Portion of the ARA Adjustment.

MAUI ELECTRIC COMPANY, LIMITED

Transmittal Letter dated March 31, 2021.

ANNUAL REVENUE ADJUSTMENT PROVISION (continued)

Maui, Lana'i and Moloka'i Divisions

Z-Factor Amount: Amount determined by the Commission and applied (ex post) to account for exceptional circumstances and exogenous changes not in the utility's direct control.

Multiplicative CD Component Amount: 0.22% multiplied by the Basis for the Compounded Portion of the ARA Adjustment.

Subtractive CD Component Amount: A specified dollar amount for the applicable year.

MAUI ELECTRIC COMPANY, LIMITED

Transmittal Letter dated March 31, 2021.

ANNUAL REVENUE ADJUSTMENT PROVISION (continued)

Maui, Lana'i and Moloka'i Divisions

For the first year of implementation, the Basis for the Compounded Portion of the ARA Adjustment shall equal the electric sales revenue, minus revenue for fuel and purchased power expenses, from the Company's most recent general rate case, plus the RAM Revenue Adjustments in effect immediately prior to the date this tariff initially took effect, all parts appropriately adjusted to exclude revenue taxes. For subsequent years, the Basis for the Compounded Portion of the ARA Adjustment shall equal the sum of the prior Adjustment Year's Basis for the Compounded Portion of the ARA Adjustment plus the prior Adjustment Year's Compounded Portion of the ARA Adjustment.

B. Components of the ARA Adjustment

1. I-Factor (Inflation Factor):

The I-Factor Percentage shall represent annual inflation based on the consensus estimated percentage annual change in the Gross Domestic Product Price Indicator ("GDPPI") to determine the I-Factor amount component of the ARA Adjustment for each Adjustment Year. The Fall Revenue Report shall establish the I-Factor Percentage for the Adjustment Year. The Spring Revenue Report will provide an informational update to the I-Factor Percentage.

For the Fall Revenue Report, the I-Factor Percentage shall be the consensus projection of annual percentage change in GDPPI for the Adjustment Year published by the Blue Chip Economic Indicators (Aspen Publishing) each October preceding the Adjustment Year. For the Spring Revenue Report, the consensus projection of percentage change in GDPPI for the Adjustment Year published by the Blue Chip Economic Indicators (Aspen Publishing) each March in the Adjustment Year shall be reported for informational purposes only.

In the event that the Blue Chip Economic Indicators forecast of the GDPPI is not available, the Consumer Advocate and the Company shall jointly select an alternative data source, or national economic index similar to GDPPI, as appropriate, which shall be subject to the approval of the Commission.

The I-Factor Amount for the applicable Adjustment Year shall be the I-Factor Percentage multiplied by the Basis for the Compounded Portion of the ARA Adjustment.

MAUI ELECTRIC COMPANY, LIMITED

ANNUAL REVENUE ADJUSTMENT PROVISION (continued)

Maui, Lana'i and Moloka'i Divisions

2. X-Factor (Productivity Factor):

The X-Factor Percentage shall be zero percent (0%).

The X-Factor Amount for the Applicable Adjustment Year shall equal the X-Factor Percentage multiplied by the Basis for the Compounded Portion of the ARA Adjustment.

3. Z-Factor: The Z-Factor shall account for exceptional circumstances that are exogenous to the utility and beyond the reasonable control of utility management as determined by the Commission, in its discretion.

The Z-Factor Amount shall equal zero unless the Commission approves a Z-Factor adjustment by order.

General eligibility criteria for Z-Factor costs include:

- 1) The costs must be attributable to events outside the control of a prudently operating electric utility;
- 2) The costs must be related to the exogenous event and outside the base upon which the rates were originally derived;
- 3) The cost impact of the event must be clearly outside of the base upon which current effective rates were derived;
- 4) The costs must be prudently incurred;
- 5) The costs must not be otherwise addressed by existing rates and/or other sources of cost recovery available to the utility (e.g., insurance, government aid, or indemnity from third parties); and
- 6) The costs related to each exogenous event must exceed the defined Materiality Threshold for the applicable utility (\$4 million per event for Hawaiian Electric and \$1 million per event for Hawaii Electric Light and Maui Electric).

ANNUAL REVENUE ADJUSTMENT PROVISION (continued)

Maui, Lana'i and Moloka'i Divisions

4. Customer Dividend:

The Customer Dividend consists of two parts.

The Multiplicative CD Component Amount for the applicable Adjustment Year shall be 0.22% multiplied by the Basis for the Compounded Portion of the ARA Adjustment.

The Subtractive CD Component Amount shall be the Subtractive CD Component value for the applicable year in the table below.

| Year | Subtractive CD Component |
|------|--------------------------|
| 2021 | \$3,336,027 |
| 2022 | \$992,020 |
| 2023 | \$992,020 |
| 2024 | \$992,020 |
| 2025 | \$992,020 |

IV. Annual Revenue Adjustment Process and Evaluation

The calculation of the ARA Adjustment and the proposed adjustment to target revenues shall be included in the Company's Fall Revenue Report and updated in the Company's Spring Revenue Report, as described in the Company's RBA Provision.

MAUI ELECTRIC COMPANY, LIMITED

Transmittal Letter dated March 31, 2021.

ANNUAL REVENUE ADJUSTMENT PROVISION (continued)

Maui, Lana'i and Moloka'i Divisions

V. Evaluation Period Earnings Sharing:

1. The Company shall include a calculation of its achieved return on average common equity, on a regulatory accounting basis, for the twelve month period ending December 31 of each year (the Evaluation Period), with the filing to be made in the Spring Revenue Report. The schedules will include the following:
 - a) Company's recorded two-point average net plant in service, accumulated deferred income taxes, inventory, working capital, and other rate base components. The schedules shall also show the utility's actual depreciation expense, operating and maintenance expense, income taxes, taxes other than income taxes, and other components of income for return, revenues, and actual capital structure, updated Evaluation Period average cost of debt, overall cost of capital, and return on average common equity in the format set forth in the final order establishing the Company's latest completed rate case.
 - b) All applicable accounting and pro forma adjustments historically required in annual reports filed with the Commission.
 - c) Pro-forma adjustments to remove from recorded revenues any Earnings Sharing Adjustment recorded during the Evaluation Period.
 - d) For Evaluation Periods beginning January 1, 2021, earnings and penalties from the Performance Incentive Mechanism Provision, Shared Savings Mechanisms, and Fossil Fuel Cost Risk Sharing will be included in the determination of achieved return on average common equity and any resulting applicable Earnings Sharing Adjustment.
 - e) For Evaluation Periods beginning January 1, 2021, a calculation comparing the achieved return on average common equity to the following earnings sharing grid, and indicating the Earnings Sharing Adjustment that shall be implemented as an adjustment to Target Revenue effective for a twelve-month period:

MAUI ELECTRIC COMPANY, LIMITED

ANNUAL REVENUE ADJUSTMENT PROVISION (continued)

Maui, Lana'i and Moloka'i Divisions

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|---|---|
| ROE within 300 basis points above or below Authorized 9.5% ROE | Retained entirely by shareholders - no customer share |
| Next 150 basis points (one and a half percent) above or below Authorized ROE (i.e., 301-450 basis points) | 50% share to customers |
| Greater than 450 basis points above or below Authorized ROE | 90% share to customers |

VI. COMMISSION'S AUTHORITY

The Commission may suspend any or all parts of this Annual Revenue Adjustment Provision. Such suspension shall remain in place until removed by Commission Order.

MAUI ELECTRIC COMPANY, LIMITED

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