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Hawaiian Electric Industries, Inc. (HE)

Q1 2025 Earnings Call

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CORPORATE PARTICIPANTS

Mateo Garcia
Director-Investor Relations, Hawaiian Electric Industries, Inc.

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

Scott Deghetto
Executive Vice President, Chief Financial Officer & Treasurer, Hawaiian Electric Industries, Inc.

Shelee M. T. Kimura
President, Chief Executive Officer & Director, Hawaiian Electric Co., Inc.

OTHER PARTICIPANTS

Michael Brown
Analyst, Barclays

Julien Dumoulin-Smith
Analyst, Jefferies LLC

Michael Lonegan
Analyst, Evercore Group LLC

Jonathan Reeder
Analyst, Wells Fargo Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Hello, and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the HEI First Quarter 2025 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] I would now like to turn the conference over to Mateo Garcia, Director of Investor Relations. Please go ahead.

Mateo Garcia
Director-Investor Relations, Hawaiian Electric Industries, Inc.

Thank you. Welcome, everyone, to HEI's first quarter 2025 earnings call. Joining me today are Scott Seu, HEI President and CEO; Scott Deghetto, HEI Executive Vice President and CFO; Shelee Kimura, Hawaiian Electric President and CEO, and other members of senior management. Our earnings release and our presentation for this call are available in the Investor Relations section of our website. As a reminder, forward-looking statements will be made on today's call. Factors that could cause actual results to differ materially from expectations can be found in our presentation, our SEC filings and in the Investor Relations section of our website. Today's presentation also includes references to non-GAAP financial measures. You should refer to the information contained in the slides accompanying today's presentation for definitional information and reconciliations of historical non-GAAP measures to the closest GAAP financial measure.

We will take questions from institutional investors at the end of this call. Individual investors and others can reach out to Investor Relations. Now, Scott Seu will begin with his remarks.

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

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Aloha kākou. Welcome, everyone. For today's call, I'll start with an update on our continued efforts to regain HEI's financial strength and emerge a stronger, more resilient company. I'll also touch on the recently concluded [ph] OE (00:12:04) legislative session and the remaining steps required for execution of the Maui Wildfire settlement agreement. I'll then turn it over to Scott Deghetto, who will walk through our financial results, and then we'll open it up for questions.

Last quarter, we discussed the important progress made in 2024 to ensure a strong, financially healthy future for HEI and to best position our company to serve the communities in which we operate for the long term. This progress has continued in 2025, with important strides made to resolve the Maui Wildfire tort litigation while laying a foundation for financial strength and resilience moving forward. In February, the Hawaii State Supreme Court issued a decision resolving the outstanding issue with insurers who filed subrogation claims related to the Maui wildfires. The court clarified that once the settlement becomes final, insurers seeking to recover amounts they paid to settling plaintiffs cannot separately sued defendants. The decision aligned with our position and was a key step in finalizing the settlement.

With this critical, supportive Supreme Court decision, the remaining administrative steps required to finalize the settlement are expected to be completed early next year, after which we'll make our first $479 million payment. In March, Governor Green announced the commencement of the first disbursement under the $175 million One 'Ohana Initiative to participating families who lost loved ones and individuals who suffered serious physical injuries in the Maui wildfires. As a reminder, the One 'Ohana Initiative was established to provide relief as quickly as possible to those most seriously impacted. Our company contributed $75 million to One 'Ohana, and this is part of our $1.99 billion total contribution to the settlement. The path toward resolving the Maui wildfire tort litigation is clearer now than at any time since August 2023.

With the sale of American Savings Bank and ongoing divestiture of Pacific Current assets, we're moving to a simpler business model which will eventually be focused solely on regulated utility operations. With the actions we took last year to improve our balance sheet and liquidity, we're also moving forward with greater financial strength. We're well-positioned to finance the remaining settlement payments amidst the robust CapEx cycle expected at Hawaiian Electric. The significant investments planned in the utilities generation system and electric grid will enhance safety, reliability and resilience for our customers.

We're also moving forward with an operational risk profile that's greatly improved since the 2023 Maui wildfires. The Utility has continued to implement the enhanced wildfire safety measures outlined in the 2025 through 2027 wildfire safety strategy submitted to the Public Utilities Commission in January. Another priority for 2025 and 2026 is to rebase the Utility's target revenues in the Performance-Based Regulation or PBR framework. In February, the PUC ordered that target revenues should be rebased ahead of the second multi-year rate period of the PBR framework, using a rate case-like proceeding. We expect to file an application to rebase target revenues towards the latter part of this year.

Our progress in making our company stronger and more resilient has not come at the expense of other key priorities. We remain committed to advancing our state's clean energy goals and our path to 100% RPS and net zero by 2045. In summary, we believe our company's investment thesis is stronger today than it has been at any point since the Maui wildfires. We've made significant progress toward resolving the wildfire tort litigation and simplifying our corporate structure. And the actions we've taken to improve our company's risk profile and financial flexibility have positioned us well for the future.

Turning to the next slide, this legislative session, several measures passed and are awaiting signature by Governor Green. Last week, the Hawaii State Legislature passed House Bill 1001, appropriating funds for the

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state of Hawaii's contribution to the Maui wildfire tort litigation settlement. This was a crucial step to ensure the settlement is implemented. The legislature also passed Senate Bill 897 directing the Public Utilities Commission to establish an aggregate liability cap on economic damages from future wildfires. Numerous factors will be considered in determining the cap, including impacts on credit ratings, borrowing costs, and customer rates.

In order to assert the liability cap, the Utility needs to have a PUC-approved wildfire mitigation plan and a PUC determination that the plan is being implemented on an approved timeline. Senate Bill 897 also authorizes securitization to finance wildfire safety improvements. This will ensure that these critical safety improvements can be implemented at lower cost to customers. And Senate Bill 897 also directs the PUC to study the creation of a disaster recovery fund with recommendations to be provided to the Legislature prior to the 2026 legislative session.

Although many details will need to be worked through, Senate Bill 897 is a milestone piece of legislation that can reduce wildfire liability risk exposure for the Utility going forward. It also allows for lower-cost financing so that the Utility can implement wildfire mitigation plans in a more cost-effective manner. Hawaii is now one of 15 states that have passed or considering utility-related wildfire legislation, including laws to limit Utility's exposure to liability if they take action to reduce the risk of ignition. Legislation was also passed supporting the Utility's ability to procure reliable, affordable, clean energy.

Senate Bill 1501 will help reduce financial risk concerns for independent power producers contracting with the Utility. It authorizes the state to provide a financial backstop in certain situations to ensure Utility payments to independent power producers. This ensures that developers have access to capital at reasonable rates and can provide the Utility with clean, reliable power while preserving project economics and customer affordability. This legislation also supports our state's drive towards 100% RPS and carbon neutrality by 2045. This year's constructive legislative outcome was the result of months of debate, collaboration and hard work from policymakers and numerous Hawaii stakeholders. We look forward to continuing our work with the governor, our legislature, the PUC. and other stakeholders after these bills are signed into law.

Lastly, slide 5 shows the expected timing for the remaining steps required to finalize the settlement agreement. The Maui District Court is working through the administrative steps required for the settlement to take effect. These include granting approvals of the agreements and making good faith determinations, among other steps. We expect these steps will be completed in early 2026, which will then trigger our first payment obligation.

I'll now hand the call off to Scott Deghetto, who will take you through the quarter's financial results.

Scott Deghetto

Executive Vice President, Chief Financial Officer & Treasurer, Hawaiian Electric Industries, Inc.

Thank you, Scott. I'll start with our financial results for the quarter on slide 6. In the first quarter, we generated net income $26.7 million or $0.15 per share. The quarter's results include a $13.2 million pre-tax loss on sale recorded at Pacific Current, resulting from the sale of its largest asset, the Hamakua Power Plant. The quarter's results also include $4.5 million of pre-tax Maui wildfire related expenses, net of insurance recoveries and deferrals. Approximately $2.5 million of the $4.5 million in net wildfire expenses was recorded at the Utility. Excluding these items, consolidated core net income was $39.8 million for the quarter or $0.23 per share. This compares to core income from continuing operations of $28.4 million or $0.26 per share in the first quarter of 2024. As a reminder, income from continuing operations is the appropriate 2024 metric to compare to as it excludes the operations of American Savings Bank, which we sold at the end of last year.

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Utility core net income for the quarter was $49.7 million, compared to $44.2 million in the first quarter of 2024. The increase in Utility core net income was driven by better heat rate performance, higher annual revenue adjustment mechanism revenues, and lower bad debt expense, partially offset by higher wildfire mitigation program expenses and higher insurance costs. Holding company core net loss was $9.9 million, compared to $15.8 million in the first quarter of 2024. The lower core net loss was driven by higher interest income from holding company cash being held on the balance sheet, primarily to make the first settlement payment.

Turning to the next slide, I'll provide a few key updates on our capitalization and liquidity. As of the end of the first quarter, the holding company and the Utility had approximately $492 million and $130 million of unrestricted cash on hand respectively. The March 31 holding company cash balance includes the approximately $384 million from the ASB sale that was used to retire debt on April 9. In addition, the holding company has approximately $300 million in combined liquidity available under its ATM program and revolver capacity. The Utility also has approximately $300 million of liquidity available under its accounts receivable credit facility and revolver capacity. The first settlement payment of $479 million continues to be held in a subsidiary created for addressing first installment payment pursuant to the Maui wildfire settlement. This is included in restricted cash on the balance sheet until we make the first settlement payment expected in early 2026.

We mentioned previously that the net proceeds from last year's sale of 90.1% of American Savings Bank would be used for debt reduction at the holding company. Following a successful tender offer in March, on April 9, HEI retired approximately $384 million of debt. The lower holding company debt balance gives us more financial flexibility as we formulate plans for financing the balance of the settlement payments. Looking ahead, HEI remains committed to a simpler, more focused business model. Following the successful sale of Pacific Current's largest asset, we are continuing to explore our options with the remaining assets.

Lastly, the Utility dividend to HEI has been reinstated after the temporary suspension that began with the second quarter 2024 dividend. Hawaiian Electric's board of directors approved a $10 million quarterly dividend for the first quarter of 2025. This decision was made after considering several factors, including the continued progress of the Maui windstorm and wildfire settlement, as well as the Utility's results of operations and liquidity position. At that, let's open up the call for questions.

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QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from the line of Nicholas Campanella with Barclays. Please go ahead.

Michael Brown
Analyst, Barclays

Q

Hi. This is Michael Brown on for Nicholas Campanella. First question is, do you anticipate a positive feedback from the rating agencies if SB 897 is signed into law? How do you think that they will view [indiscernible] (00:25:05)?

Scott Deghetto
Executive Vice President, Chief Financial Officer & Treasurer, Hawaiian Electric Industries, Inc.

A

Yeah, the simple answer to that is, yes, we don't want to speculate on what the rating agencies are thinking or how they'll respond to that. But they've given us very strong indications that once that is signed, as well as a number of other key milestones, including the final court approval of the settlement agreement, that those are all credit positives.

Michael Brown
Analyst, Barclays

Q

My next question is if SB 897 is signed into law, is this like – what kind of step forward is this for the wildfire fund going forward?

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

A

Mike, this is Scott Seu. I'm not quite sure your question with respect to 897 is what?

Michael Brown
Analyst, Barclays

Q

How will this legislation shift the discussion towards a future wildfire fund implementation?

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

A

Well, as part of Senate Bill 897, there is a component that requires the PUC to study the viability of a wildfire fund and come back to the legislature prior to the next session with recommendations on whether a fund should be created. If so, how large should it be? What should be the structure and other considerations? So, the PUC will be doing this study towards the end of this year.

Michael Brown
Analyst, Barclays

Q

Thank you.

Operator: Our next question will come from the line of Julien Dumoulin-Smith with Jefferies. Please go ahead.

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Julien Dumoulin-Smith
Analyst, Jefferies LLC

Q

Hey. Good afternoon – or good morning, good afternoon, as it may be. Thank you for the time. Let me just pick up on the SB 897 from the second ago. I mean, what is this liability cap, if you will? I mean, obviously, they're directing the PUC to establish one. How do you think about a range as appropriate or how do you even think about the concept of this supposed liability cap? I mean – and how are you engaging with parties on even approaching what that might conceivably construed as being?

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

A

Yeah. Hi, Julien. This is Scott. I think what's important is that SB 897, it essentially says that there shall be an aggregate liability cap. So, that's the first important point. The meat of the bill, of course, is directing the PUC to start a rulemaking process to consider a number of different factors that we touched upon in my earlier remarks and which are listed in the bill itself. And the PUC will take into account should this – should the liability cap be based on a cap within a set time period, should it be on a per event basis, should it be a flat dollar amount, should it be a percent of our market cap or rate base. So, a number of these different factors all listed in the legislation. So, I think it's important that we don't get ahead of the PUC process. But just remember that the bill directs that a cap will be established and it's put to the PUC to follow their rulemaking process to establish exactly what the best form is to serve the purposes of the cap.

Shelee M. T. Kimura
President, Chief Executive Officer & Director, Hawaiian Electric Co., Inc.

A

If I can just add a little bit more color to that, Julien, this is Shelee, to help you put some parameters around it. During the legislative session, proposals were made to have it be the lesser of $500 million or some other parameters. And later in legislation it was discussed that $1 billion. The challenge in the legislative session was folks getting comfortable with that number. And the way the legislation is written now is that for the PUC to determine the amount, it's similar to the California law where it's looking at what can the utility pay without harming ratepayers or our ability to deliver service.

Julien Dumoulin-Smith
Analyst, Jefferies LLC

Q

Got it. No, fair enough. And I get that it's early on, so I appreciate that it's dynamic. And then maybe if I can come back, like, look, I mean, just assuming this legislation becomes law, can you elaborate on your financing strategy for the remaining three settlement payments? Right. I mean, obviously, you elaborate – you spoke to the first one here, but how are you thinking about the remaining payments here and maybe securitization elements potentially ahead?

Scott Deghetto
Executive Vice President, Chief Financial Officer & Treasurer, Hawaiian Electric Industries, Inc.

A

So – and I know you asked this every quarter, and I tend to answer it the same, Julien, which is we're continuously looking at the capital markets to determine how to best finance it. We're going to do that by looking at a variety of different factors. As it turns out, the first payment will not be made until sometime in – early 2026. So, we're still about a year out from thinking about raising the funds for the second payment. So, I think it's premature to come to any definitive conclusions as to how we'll finance it, other than what I've been saying in the past, which is it'll be a combination of both debt and equity.

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Julien Dumoulin-Smith
Analyst, Jefferies LLC

Q

Yeah. No, fair enough. I get it's preliminary. We are all chomping at the bit, and I hope you appreciate that, Scott. Look, let me ask...

Scott Deghetto
Executive Vice President, Chief Financial Officer & Treasurer, Hawaiian Electric Industries, Inc.

A

[indiscernible] (00:30:29) – as time goes on and we get closer, we'll be more definitive in how we answer that question.

Julien Dumoulin-Smith
Analyst, Jefferies LLC

Q

Got it. And you talked about getting to the final line of this stuff. I mean, how do you think about – you got the Supreme Court decision on subrogation, you checked that box. Are there any remaining obstacles that remain here to get that final approval done and fully close that out?

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

A

Yeah. So, at this stage, I mean, that was probably one of the most important decisions to allow the settlement process to continue forward. So, going ahead, the Maui Circuit Court will go through a number of proceedings, including preliminary approval of the class settlement agreement, individual plaintiffs' approval of their settlement as well. After you get to the class settlement, preliminary approvals, then there's some administrative steps, including notice to the class opportunities for individuals to sign on. And that period will probably span several months, all of which would lead to our estimation that a final approval hearing would happen sometime the first quarter of 2026. And then following that, we would make our first payment.

Scott Deghetto
Executive Vice President, Chief Financial Officer & Treasurer, Hawaiian Electric Industries, Inc.

A

One other point, Julien, I wanted to make, because I didn't answer the second part of your question on securitization. Just to be clear, the securitization authorization is for Utility CapEx. It is not for funding any of the settlement or the settlement payments.

Julien Dumoulin-Smith
Analyst, Jefferies LLC

Q

Okay. Thank you for that clarity there. Appreciate you following up. All right, guys, thank you all very much. Appreciate it. Best of luck. [indiscernible] (00:32:19).

Scott Deghetto
Executive Vice President, Chief Financial Officer & Treasurer, Hawaiian Electric Industries, Inc.

A

Thanks, Julien.

Operator: Our next question comes from the line of Michael Lonegan with Evercore. Please go ahead.

Michael Lonegan
Analyst, Evercore Group LLC

Q

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Hi. Thanks for taking my questions. So, to follow-up on the securitization, obviously, it's for the wildfire mitigation and resiliency investment. Is that – will you approach it that way as the securitization, or is it something we could see as an investment to generate earnings on?

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

A

Yeah. Mike, the way they that SB 897 is drafted is that it appears as though the first $500 million of utility CapEx towards wildfire mitigation would be using the securitization method.

Michael Lonegan
Analyst, Evercore Group LLC

Q

Okay. Thank you. And then to follow-up on the financing, is there – I know you talked about combo of debt and equity over time, the settlement periods over four years. Is there a scenario where you could be opportunistic with some block equity or your ATM in the event your – say your stock price is boosted with clarity on the tariff situation and the economy?

Scott Deghetto
Executive Vice President, Chief Financial Officer & Treasurer, Hawaiian Electric Industries, Inc.

A

Good question. I mean, as it relates to the tariffs, that's changing on a daily basis, if not more frequently than that. And so, based upon that and where we're looking at the future financings, I would tell you that I'm hoping the tariffs don't play into it. And again, we have, as you said, two, three and four years from now, we're looking at financing the balance of those payments. I mean, if it made sense to pre-fund based upon what was happening in the markets at a particular time, yeah, we would absolutely look at taking advantage. But right now, we're not – we don't have any current plans in the near future to finance any of those payments. Again, the first payment will not be made until first quarter 2026, at least that's the timeline that we believe will play out.

Michael Lonegan
Analyst, Evercore Group LLC

Q

Great. And then – thank you. And then lastly from me, just wondering if you could talk about the planned rate case filing, the key components of it. Is it going to be a 12-month forward test year? And what are your expectations for potential revisions to the five-year PBR framework?

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

A

Yeah, I'll kick things off here and maybe if Shelee or others from the Utility want to add in. But essentially, what's happening, Mike, is when PBR was first adopted by the PUC, they established that the current multi-year rate period will end May 31 of next year. The next period, the second multi-year rate period will commence beginning of 2027, January 1, 2027. So, what the PUC ordered back in February of this year was that between now and January 1 of 2027, the utility will go through the process of rebasing the target revenues ahead of the start of the second multi-year rate period in 2027. And then that translates to – as I said in my remarks, the utility will file information to the PUC towards the later part of this year to support the rebasing of target revenues. It will be a – and the PUC was very explicit in their order. It will be a rate case-like proceeding. They wanted to reserve the ability to provide some flexibility in terms of the process for that proceeding, to make it more efficient and to be very much focused on the PBR context. So, it's early on. We are going to be going through this preparation for the filing. And once the filing is made, there's going to be an ongoing process focused on the target revenue rebasing, but also looking at what other modifications might be appropriate to the overall PBR framework. So, there's going to be a number of moving parts happening in parallel there.

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Michael Lonegan
Analyst, Evercore Group LLC

Q

Great.

Shelee M. T. Kimura
President, Chief Executive Officer & Director, Hawaiian Electric Co., Inc.

A

I will just add one thing that I think that Scott did a really good job describing it. I think the one question you asked was the test year. So, we're looking at a 2026 test year.

Michael Lonegan
Analyst, Evercore Group LLC

Q

Okay. Thank you.

Operator: Our next question will come from the line of Jonathan Reeder with Wells Fargo. Please go ahead.

Jonathan Reeder
Analyst, Wells Fargo Securities LLC

Q

Hey. Good morning, team. Thanks for taking my question. I just wanted to follow-up quickly on that last topic. You said a 2026 test year. Is it safe to say that the 9.5% allowed ROE and 57%, I believe, is equity ratio that those items will be scrutinized and readdressed?

Shelee M. T. Kimura
President, Chief Executive Officer & Director, Hawaiian Electric Co., Inc.

A

So, we're going to take another look at that given our current environment and our current context. And so, that is something that we'll be evaluating and proposing in our filing later this year.

Michael Lonegan
Analyst, Evercore Group LLC

Q

Okay. But it will be an item that I guess could potentially change positively, like...

Shelee M. T. Kimura
President, Chief Executive Officer & Director, Hawaiian Electric Co., Inc.

A

Yeah.

Michael Lonegan
Analyst, Evercore Group LLC

Q

Yeah.

Shelee M. T. Kimura
President, Chief Executive Officer & Director, Hawaiian Electric Co., Inc.

A

Yes.

Michael Lonegan
Analyst, Evercore Group LLC

Q

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Scott, I want to go back to Senate Bill 897. Just found it interesting, after months of debate around the issues, why do you think the legislature ultimately just deferred these very important decisions around the liability cap and the potentially creation of the fund to the PUC just kind of punted on them?

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.
A

Yeah. The legislature – I mean, they really spent quite a bit of time digging into what things to consider, how would you establish a methodology, what should be – what are some other examples, what's happening with other states, and so on. At the end of the day, it was felt that the PUC would be able to use a more robust, more in-depth process to really dive into the details of all these different considerations, many of which are very technical in nature. And that's why they ended up deciding that rather than trying to just throw out a number and put it into law, have the PUC work through a very thoughtful rulemaking process. So, it wasn't meant to be – I don't think it would – it's fair to consider that – consider this as a let's just punt it to the PUC. It was a very thoughtful and very deliberative discussion that they came to this.

Michael Lonegan
Analyst, Evercore Group LLC
Q

Okay. Curious what is your understanding of what the governor's position is on the liability cap since, ultimately, he has to sign off on what the PUC rules are.

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.
A

Well, again, I can't speak for the Governor, but the Governor's office was – they always play a very active role in any legislative session. They did provide testimony on various stages of this bill as it worked through the legislative process. Ultimately, having the governor have that say once the PUC completes the rulemaking, it provides the Governor his opportunity to weigh in and have any other thoughts considered by the PUC, if necessary. So, I think, overall, again, the outcome of the bill provides for appropriate process and input from many stakeholders, including the Governor.

Jonathan Reeder
Analyst, Wells Fargo Securities LLC
Q

Got it. Okay. Well, we'll be watching it and see how it plays out. Appreciate the time, and good luck on the process forward.

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.
A

Thanks, Jonathan.

Operator: And that will conclude our question-and-answer session. I'll hand the call back over to Scott Seu for closing remarks.

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

All right. Well, I just want to thank everybody again for joining us today. In closing, I want to reiterate that we are in a stronger position today that at any point since the 2023 Maui wildfires. Our position is a direct result of the actions that we've taken to regain our financial strength and emerge a stronger, more resilient company. With

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resolution of the wildfire tort litigation expected over the next year, our simpler business model focused solely on regulated operations, our strong and improving safety profile, and earnings improvement opportunities on the horizon, we're very optimistic about our future. So, thank you again, everybody.

Operator: This will conclude today's call. Thank you all for joining. You may now disconnect.

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