NEIL ABERCROMBIE
GOVERNOR

SHAN S. TSUTSUI
LT. GOVERNOR

STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
335 MERCHANT STREET, ROOM 310
P.O. Box 541
HONOLULU, HAWAII 96809
Phone Number: 586-2850
Fax Number: 586-2856
www.hawaii.gov/dcca

KEALI`I S. LOPEZ
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

Email and U.S. Mail

January 15, 2014

Mr. Scott K. Barber
Chief Operating Officer
Hawaiian Telcom Services Company, Inc.
1177 Bishop Street
Honolulu, HI 96813

Dear Mr. Barber:

Re: Letter Order – Collection of 5% Franchise Fees

As you know, pursuant to Decision and Order ("**D&O**") No. 352, the Department of Commerce and Consumer Affairs ("**DCCA**") currently requires Hawaiian Telcom Services Inc. ("**HTSC**") to pay Franchise Fees consisting of the following: (1) three percent (3%) of its annual Gross Revenues (as defined in D&O No. 352) for Access Operating Fees ("**AOF**") to the Oahu PEG Access Organization, (2) one percent (1%) of its annual Gross Revenues to the Hawai'i Public Television Foundation, dba PBS Hawai'i ("**HPTF**"), and (3) one percent (1%) of annual income received from subscribers for cable services[1] in Annual Fees to DCCA to administer HRS chapter 440G.

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1 HTSC's Annual Fees to the DCCA are calculated using "income received from subscribers for cable services rendered during the preceding calendar year," which, as defined in HAR section 16-132-2(d), may be less than "Gross Revenues." Currently, the Annual Fee requested by the DCCA is less than 1% of HTSC's annual Gross Revenues.

Under HAR section 16-132-2(d), "'income received from subscribers for cable services" is defined as revenues derived from the supplying of regular subscriber service and includes installation fees, disconnect and reconnect fees and fees for regular cable benefits. The term does not include per-program or per-channel charges, leased channel revenues, advertising revenues and other income derived from the system.

Under federal law, the State is entitled to franchise fees from cable operator(s) that in total do not exceed five percent (5%) of a cable system's annual gross revenues. 47 U.S.C. §542(b).

This is to inform you that the Director orders that effective for the bills received by subscribers in April, 2014 and thereafter, the Franchise Fee is raised to the maximum 5% allowed under federal law. Accordingly, commencing January 31, 2015 and every January 31 thereafter, HSTC shall pay to the DCCA an Annual Fee equal to the percentage of annual income received from subscribers for cable services during the preceding calendar year that is equivalent to one percent (1%) of the Gross Revenues during the preceding calendar year,[2] subject to further order of the Director; provided, however, that the January 31, 2015 payment will be the sum of the following: (a) with respect to bills received by subscribers from January 2014 to March 2014, one percent (1%) of annual income received from subscribers for cable services, plus (b) with respect to bills received by subscribers from April 2014 to December 2014, the percentage of annual income received from subscribers for cable services that is equivalent to one percent (1%) of the Gross Revenues during that period.

There are no changes to HTSC's monthly AOF payments to the Oahu PEG Access Organization, or to the monthly HPTF payments.

If you have any questions on the above, please do not hesitate to contact Ms. Catherine Awakuni, Cable Television Administrator, at (808) 586-2620. Thank you for your assistance and cooperation in this matter.

Very truly yours,

KEALI'I S. LOPEZ
Director

cc: Francis K. Mukai, Esq.
Hawaiian Telcom Services Company, Inc.
Department of the Attorney General

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2 DCCA intends to increase the Annual Fee paid to DCCA because the amount of the Annual Fee it currently is receiving is insufficient to cover DCCA's rising staffing costs and costs of other services to administer HRS chapter 440G.