

ORIGINAL

DIVISION OF CONSUMER ADVOCACY
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PUBLIC UTILITIES
COMMISSION

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FILED

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
)
MAUI ELECTRIC COMPANY, LIMITED)
)
For approval to modify the RBA Rate)
Adjustment in its Revenue Balancing)
Account Provision Tariff.)

Transmittal No. 13-01
(Decoupling)

Effective Date: June 1, 2013

DIVISION OF CONSUMER ADVOCACY'S
STATEMENT OF POSITION

Pursuant to the Hawaii Public Utilities Commission's ("Commission") Rules of Practice and Procedure, Hawaii Administrative Rules ("HAR") § 6-61-62 and the Commission's August 31, 2010 Final Decision And Order And Dissenting Opinion Of Leslie H. Kondo, Commissioner, in Docket No. 2008-0274 ("2008-0274 Decision and Order"), the Division of Consumer Advocacy ("Consumer Advocate" or "Division") offers comments for the Commission's consideration based on the review that the Division has conducted to date on the decoupling rate adjustment filing of Maui Electric Company, Limited ("MECO" or "Company"), where MECO seeks to implement an adjustment of \$0.008684 per kWh for all divisions, to be effective in the June 1, 2013 through May 31, 2014 recovery period. Based on that review to date, the

Consumer Advocate recommends certain adjustments to MECO's proposed RBA Rate adjustment, as more fully discussed below.

I. BACKGROUND.

This filing is MECO's first decoupling filing, because the Company's base rates were last adjusted in MECO's 2012 test year rate case (Docket No. 2011-0092).¹ MECO filed the instant application on March 28, 2013, seeking Commission approval to revise the Revenue Balancing Account rate adjustment clause to recover \$0.008684 per kWh.² The Consumer Advocate submitted several rounds of informal written information requests and conducted a series of interviews of Company personnel to analyze the documentation submitted by MECO in support of its filing. The need for several adjustments and one follow-up concern to the Company's filing was revealed by this effort, as more fully described in the Discussion Section of this document.

¹ While this is the Company's first proposed RBA Rate Adjustment, MECO submitted schedules and workpapers supportive of a 2012 RBA Rate Adjustment for informational purposes only, with no corresponding RBA Rate Adjustment, in its letter dated May 10, 2012 in Docket No. 2009-0092.

² Pursuant to the 2008-0274 Decision and Order, the Consumer Advocate is directed to file its Statement of Position within 30 days of the Company's filings, unless otherwise ordered by the Commission. Thus, the Consumer Advocate's filing was supposed to have been filed on April 29, 2012. The Consumer Advocate notified the Commission on April 26, 2013, that its investigation was ongoing and nearly complete and that its Statement of Position would be submitted no later than May 6, 2013.

II. DISCUSSION.

A. REVIEW OF THE REVENUE BALANCING ACCOUNT ACTIVITY.

Almost 60% of the Company's proposed RBA Rate Adjustment is driven by the accumulated Revenue Balancing Account ("RBA") balance arising from shortfalls in recorded, adjusted revenues in comparison to the targeted levels of approved base revenues during 2012. As of December 31, the accumulated RBA balance to be recovered represents a cumulative revenue shortfall of \$5.8 million.³

The HECO Companies have now adopted extensive reporting and internal review requirements to ensure that entries made to its Revenue Balancing Account are accurate and complete. Detailed monthly workpaper "Packets" are prepared in support of the RBA entries that are recorded each month by MECO, as reported at pages 9A, 9A.1 and 9A.2 of the Monthly Financial Report that is submitted to the Commission. These Packets are submitted to the Consumer Advocate and contain written responses to prescribed information requests that highlight any changes in procedures, billing errors or correction or other unusual transactions impacting the RBA entries or balance. The Company has also expanded its internal review and data validation processes to reduce the risk of errors in the recording of revenues that are subject to decoupling reconciliation. In addition, internal audit reviews and certain agreed upon review procedures performed by the Company's external auditor have been added to the decoupling process to improve the reliability of RBA accounting. These efforts are designed to reduce the potential for errors in accounting for the many

³ See MECO Schedule A, where lines 1 through 3 summarize the RBA Balance recovery calculations and lines 4 through 7 summarize the RAM amounts to be included in the RBA Revenue Adjustment.

complex entries and adjustments required each month to administer the tracking of differences between target and recorded adjusted revenues. The Consumer Advocate is continuing to review the RBA calculations within the Company's filing, and has identified only one RBA balance adjustment that should be made as of December 31, 2012, as described below.

1. Termination of Rate Schedules H and K.

The final Decision and Order in Docket No. 2009-0163 terminated Rate Schedules H and K effective May 4, 2012. In quantifying the RBA adjustment within the May 2012 RBA Packet, MECO removed the revenue and kWh sales related to these rate schedules and then applied a "28/31" prorate factor to the remaining amounts to determine Recorded Adjusted Revenues for the month.⁴ Even though Rate Schedules H and K were terminated pursuant to Commission order, the Company did not lose the related revenues or sales per se, as the customers previously served under those rate schedules were simply migrated to other rate schedules offered by MECO.

Based on the Consumer Advocate's initial review of MECO's RBA Packet detail for May 2012, it appeared that two revisions to the Company's calculations were necessary. First, the revenues and sales eliminated by the Company for Schedules H and K should be reversed, increasing Recorded Adjusted Revenues by \$85,776. Second, the "28/31" prorate factor should then be applied to the revised net unbilled base revenues for the month.

⁴ At Schedule B2 of the May 2012 RBA Packet, the Company removed the revenue associated with Schedules H and K in column (c) to derive the adjusted revenue amount to which the prorate factor was applied to determine the "May Prorated" amounts that were then carried forward to column (c) of Schedule B2 of MECO's RBA/RAM filing.

However, based on additional information supplied by the Company, MECO's original RBA Packet calculations incorrectly presented the removal of fuel and purchased power from base revenues and failed to apply the prorate factor to all relevant adjustments to billed and unbilled revenues. As a result, Schedule H and K base revenues (i.e., billed and net unbilled) recorded for the month of May 2012 are negative for the month. Instead of increasing Recorded Adjusted Revenues by \$85,776, these corrections and revisions decrease Recorded Adjusted Revenues and increase the RBA Balance by \$42,950.⁵

The CA Adjustment appearing on page one of Attachment 1 is to correct the Recorded Adjusted Revenue needed in May 2012.

2. ECAC Revenue Reconciliation Inconsistencies.

Schedule B2 reveals a series of complex calculations that are performed each month to analyze the Company's recorded billed and unbilled revenue elements, in order to determine Recorded Adjusted Revenues for RBA Determination. These calculations are summarized within approximately 50 lines of calculation combining specific revenue element inputs and removal items in each month. For example, from total Revenues per General Ledger ("G/L"), as shown at Schedule B2 line 22 for MECO, it is necessary to remove Energy Cost Adjustment Clause ("ECAC"), Purchased Power Adjustment Clause ("PPAC"), Demand Side Management ("DSM") and Public Benefit

⁵ As filed, Schedule B2 of the RBA/RAM filing presented Recorded Adjusted Revenues of \$8,652,750 for May 2012, after applying the prorate factor. The corrected amount is \$8,609,800 for a reduction of \$42,950. See Attachment 2.

Fund ("PBF") surcharge revenues that are separately reported and reconciled in other periodic filings with the Commission.

The Consumer Advocate compared the amounts of ECAC, PPAC, DSM and PBF revenues that are being removed on Schedule B2 to the corresponding amounts of such revenues that have been separately reported to the Commission by the HECO Companies in separate reconciliation filings for these separately administered rate adjustment mechanisms. From this work, it has determined that there are apparent discrepancies in the amounts of recorded ECAC revenues that are removed in Schedule B2, compared to the amounts of ECAC revenues being reported to the Commission for reconciliation of energy cost recoveries. Specific quantification of this problem was possible only for Hawaiian Electric because its RBA mechanism and Schedule B2 reflect a full year of transactions that are reconciled in the calendar year ECAC reconciliation filings. For HELCO and MECO, where RBA accounting was effective for only part of calendar 2012, the Consumer Advocate has not completed this work, but has been advised that reported ECAC revenues on Schedule B2 are also inconsistent with recent ECAC reconciliation filings. In an e-mail dated May 2, 2013, the Company stated that it is, "...still reviewing the files but it appears that, like HECO, there are differences between the ECAC revenue reported in Schedule B2 and the ECAC revenue reported in the ECAC reconciliations. We will adjust the MECO and HELCO ECAC 2012 reconciliations, similar to how we discussed that the HECO reconciliations must be adjusted."

With respect to HECO, on January 29, 2013, the Company submitted its ECAC Adjustment Factor filing for February 2013. This HECO filing reported ECAC revenues

of \$646,454.6 (thousand) at Attachment 4, Page 2, line 13 for ECAC reconciliation. The corresponding amounts of ECAC revenues removed by HECO for RBA revenue reconciliation purposes do not properly tie to this amount reported for ECAC reconciliation purposes:

Amounts per RBA Sch. B2:	HECO Revenue Annual \$000
ECAC Billed (Sch B2, line 23)	736,024.1
ECAC Unbilled (Sch B2, line 36)	(26,452.0)
Totals per Schedule B2	<u>709,572.1</u>
Amounts per HECO's 1/23/13 ECAC Filing:	
Actual ECAC (FOA) filed amount	646,454.6
Adjusted with Rev. Taxes at 9.75%	<u>709,483.9</u>
Unexplained Difference in ECAC Revenue	<u><u>\$ 88.1</u></u>

The Consumer Advocate understands that the HECO Companies intend to make necessary corrections within future ECAC revenue reconciliation filings to ensure that recorded ECAC revenues accurately reflect the amounts of such revenues actually billed and accrued on the books in calendar 2012 for each of the three utilities.

3. Other RBA Balance Corrections.

The Company has advised the Consumer Advocate of the need for additional adjustments impacting Recorded Adjusted Revenues in 2012 that were recorded in 2013. Due to the relatively small magnitude of these revisions, the effects of these changes will remain subject to reconciliation in the next annual RBA Rate Adjustment submission. The Consumer Advocate will conduct its review of recorded 2013 entries to the RBA balance in the context of the next decoupling review cycle and has not

attempted to account for such changes as part of its proposed RBA Rate adjustments at this time.

B. REVIEW OF RAM CALCULATIONS FOR THE 2013 RAM YEAR.

In addition to RBA balance recovery, MECO has proposed a \$4.2 million increase in its annual revenue requirement, driven by calculated increases in the RAM components at Schedule A, lines 4 through 7. MECO's proposed RAM Revenue Adjustment amount is comprised of the O&M RAM, Rate Base RAM, and depreciation and amortization RAM, which are in the amounts of \$1,019,952, \$2,472,665 and \$676,567, respectively for the 2013 period.

The Rate Base RAM and Depreciation & Amortization RAM amounts have increased significantly in this 2013 RAM filing because of higher plant additions and the inclusion of the costs associated with the new Customer Information System ("CIS"), net of write-down of such investments, as provided for in the *Stipulated Settlement Agreement between the Hawaiian Electric Companies and the Division of Consumer Advocacy regarding Certain Regulatory Matters* ("Stipulated Settlement") in Docket No. 2008-0083 ("Stipulated Settlement").⁶

Based upon the Consumer Advocate's review to date, the Company's Rate Adjustment Mechanism ("RAM") calculations for 2013 appear to be in general compliance with the tariff and are based upon verified input data and appropriate computations, except for the following issues that were identified as a result of the Consumer Advocate's review. In each instance described below, a

⁶ The Stipulated Settlement is described in detail in the Company's Transmittal at pages 4-7 and in the Commission's Order No. 31126 in Docket No. 2010-0080.

Consumer Advocate adjustment is proposed and quantified in Attachment 1 to revise the RBA rate calculations appropriately. The Consumer Advocate has endeavored to identify, fully develop and explain each needed adjustment within the expedited review process that has been established in the Commission's decoupling order, but recognizes the continuing opportunity that is established under the RBA and RAM tariffs to continue its review and seek revisions to the target revenues in the future when and if additional corrections or modification are determined to be appropriate.

1. Tax Loss Carryforward Balances in Rate Base.

The Company's Rate Base RAM calculation includes the recorded balances of Accumulated Deferred Income Taxes ("ADIT") balances within Schedule D1, at line 16, as more fully documented in Schedule D4. ADIT balances exist to recognize that certain income tax expenses are determinable today, but will actually become payable in the future whenever book/tax timing differences ultimately reverse. ADIT balances are assets or liabilities that represent the cumulative amounts of additional income taxes that are estimated to either become receivable or payable in future periods, because of differences between book accounting and income tax accounting with respect to the timing of revenue or expense recognition. Generally Accepted Accounting Principles ("GAAP") require the use of an accrual basis accounting method to recognize revenues, expenses and income within the publicly issued financial statements of utilities and other publicly held corporations. In contrast, the accounting methods and procedures specified to determine revenues and expenses (deductions) and resulting amounts of taxable income for income tax purposes are defined by the Internal Revenue Code

("IRC" or "Code"). Differences in GAAP versus Code accounting cause what are characterized as book/tax differences. ADIT assets generally occur when revenue taxation occurs prior to book recognition of the revenues or when the tax deductibility for expenses is subsequent to the book recognition of the expense. ADIT liabilities, on the other hand, represent delayed taxation of revenues or accelerated deduction of expenses, in relation to the timing of the same transactions on the books.

ADIT balances that are associated with assets or transactions that are included in setting the utility's rates are included as a reduction to rate base, so as to recognize that income tax deferrals represent a source of zero cost capital that is available to the utility to help fund other rate base assets such as Plant in Service. The ADIT balances of electric utilities normally represent large and growing reductions to electric rate base, primarily because of the routinely large annual additions to new utility Plant in Service that are made each year, that are depreciated slowly over many years for book expense purposes but are deducted very quickly for tax accounting purposes, either through treatment as currently deductible "repairs" expense or through accelerated and bonus depreciation procedures.

MECO has included recorded ADIT balances as of December 2012 in its RAM Rate Base calculation. The supporting calculations for recorded December ADIT amounts are documented in MECO-WP-D4-001, where it can be observed that MECO has included a new element of ADIT that is captioned "2011 NOL Benefit not Utilized" on page 1 of that workpaper. "NOL" stands for Net Operating Loss and MECO has not previously recorded an NOL tax asset or sought inclusion of such amounts in utility rate base. MECO's RAM Rate Base calculation now includes an estimated Federal Income

Tax NOL balance because the Company has estimated that the cumulative effect of bonus tax depreciation and other income tax deductions in 2012 and 2013 will cause MECO's stand-alone federal taxable income to be so negative that the utility will be unable to fully realize the tax deferral benefits of such deductions due to an absence of taxable income within eligible carryback periods under Code limitations.⁷ More information concerning the Company's rationale for including the NOL Deferred Tax Asset ("DTA") in Rate Base is set forth in the Company's response to Informal MECO-CA Information Request No. 1, which has been included in final revised form as Attachment 3 to this Statement of Position.

The Consumer Advocate's position is that an NOL Deferred Tax Asset should not be included in the RAM Rate Base ADIT balance for several reasons:

- No NOL tax asset has been included in MECO's rate base in prior cases, because the Company was not previously estimated to be in an income tax loss carryforward position. This is a complex ratemaking issue that should not be approved in an expedited decoupling tariff transmittal with no opportunity for the needed discovery, analysis and testimony that could occur in a rate case.
- In its Revised response to Informal MECO-CA-IR-1, part (d), the Company acknowledged that, "As of 12/31/12, HEI consolidated did not have an NOL carryforward for which a DTA would have been provided" and that, "HEI consolidated, excluding MECO, anticipates generating taxable income sufficient to absorb 2013 federal tax losses generated by MECO." This means that all of the tax deductions being claimed by the HEI-owned utilities will be fully utilized to reduce income taxes actually paid by HEI on the consolidated income tax return that contains MECO's utility income and that there is no NOL carryforward or DTA investment when income tax consolidation effects are considered.
- The Revised response to Informal MECO-CA-IR-1, at Attachment 1, makes further adjustments to account for tax deductions that are not allowed for ratemaking purposes, but that were included in projecting the Company's federal DTA for tax loss carryforwards. In part (c) to this response, HECO acknowledges that, "These adjustments essentially offset the tax basis NOL used to calculated

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IRC Section 172 generally provides an opportunity for carryback of Net Operating Loss amounts for two prior tax years and a carryforward opportunity for twenty future years after the loss year.

[sic] the financial statement DTA related to the NOL. The primary driver is the deductions related to that portion of the CIS costs written off under the Settlement. In this light, the standalone adjustment for HELCO's taxable income is moot, and HECO asserts that the \$641,000 DTA should not be included in rate base RAM."

- According to Informal MECO-CA-IR-1, at Attachment 1, on an "As Adjusted" basis of accounting, after eliminating tax deductions for charitable contributions, disallowed CIS Project Costs, non-utility operating losses and other costs not allowed for ratemaking purposes, there is no cumulative carryforward of tax losses for the HECO utilities on a combined basis.⁸ This is because HELCO's large positive taxable income in relevant carryback tax years is more than adequate to allow full realization of all tax deductions and any resulting estimated negative taxable incomes that may be experienced at MECO or HECO on a stand-alone basis.

For all of these reasons, the Consumer Advocate has removed, in the second adjustment shown in Attachment 1, the Federal DTA balance included in MECO's asserted rate base. The Consumer Advocate understands that MECO does not contest the removal of its NOL Deferred Tax Asset from the calculation of Rate Base RAM.⁹

⁸ The estimated "Cumulative Carryforward" amount of taxable income at 12/31/2012 for HECO is negative \$16,706, for HELCO is positive \$27,925,771 and for MECO is negative \$13,847,823. This result indicates that the HEI utilities, without any consideration of banking or non-utility taxable income, are fully able to utilize all bonus depreciation and other utility tax deductions when taxable income is calculated on a ratemaking basis of accounting.

⁹ See CA-IR-1, Revised April 29, 2013. Further, in an e-mail dated May 2, 2013, the Company stated, "However, in order to expedite the resolution of the 2013 decoupling docket, the Company proposes to exclude MECO's DTA associated with its NOL carryforward (\$4.85 million). This concession should not be construed as a change in the Company's policy and position that regulatory revenue requirement should be based on a separate standalone basis." In a subsequent e-mail dated May 6, 2013, the Company stated, "MECO will agree to remove an amount equivalent to the DTA associated with the NOL carryforward in this current decoupling filing because the decoupling template and underlying workpapers, as previously agreed to, does not contemplate the inclusion of this type of DTA. However, MECO is concerned that removing the DTA associated with the NOL arising from bonus depreciation deduction may create a potential normalization violation. Consequently, MECO will pursue the inclusion of this DTA in its general rate case filing, if applicable."

2. Plant Additions Subject to Bonus Depreciation.

For the 2013 RAM year, MECO estimated the growth in ADIT balances at Schedule F1, applying an assumption that 94 percent of new Plant in Service project costs would be eligible for 50 percent "bonus" tax depreciation. When asked for support for this 94 percent assumption, MECO stated, "Upon further review, MECO has determined that the projects identified as excluded from bonus should be included and qualified. Consequently, the 94% estimated for project costs qualifying for bonus is incorrect and should be revised to 100%."¹⁰ Adjustment number three on page 1 of Attachment 1 reflects the revision of Schedule F1 to reflect 100 percent bonus depreciation eligibility for project addition costs in 2013.

3. Deferred Regulatory Asset Balances in Rate Base.

The Rate Base RAM calculation includes one new regulatory asset – "CIS Deferred Cost" at line 10 of MECO Schedule D1. As discussed at pages 4-6 of MECO's Transmittal No. 13-01 submitted on March 28, 2013, the Stipulated Settlement Agreement¹¹ allowed MECO to include in the Rate Base RAM an unamortized regulatory asset for CIS related carrying charges. This regulatory asset would be excluded from the Rate Base RAM, absent such an agreement.

In determining the average regulatory asset balance included in rate base, the Company employed a beginning balance of the two point average as the balance at

¹⁰ See MECO response to Informal MECO-CA-3.

¹¹ The Stipulated Settlement Agreement between the HECO Companies and the Consumer Advocate was filed on January 28, 2013, in Docket No. 2008-0083 and approved by the Commission on March 19, 2013, by Order No. 31126.

May 31, 2013. The only difference identified by the Consumer Advocate with respect to the inclusion of the CIS regulatory asset in the Rate Base RAM component relates to the Company's use of the regulatory asset value at May 2013¹² rather than December 2012. Referring to Schedule D1, column (d) at line 10, the Consumer Advocate recommends that the beginning balance for the CIS regulatory asset is more properly stated at December 31, 2012 in the amount \$2,708,000, as documented at MECO-WP-D1-002 CIS. At page 96F of the Rate Adjustment Mechanism tariff, part (f) of Section 2 describes the calculation of the RAM Period rate base, as follows:

- i. Plant in Service, Accumulated Depreciation, Accumulated Deferred Income Taxes and Contributions in Aid of Construction ("CIAC") shall be a two-point average of actual recorded balance sheet data at December 31 of the Evaluation Period, plus projected values at December 31 of the RAM Period determined as prescribed in parts (ii) through (v), below.

At pages 1 and 3 of Exhibit 1, the Stipulated Settlement Agreement did not provide for a variance from the December 31 valuation dates with respect to the Rate Base RAM valuation for the CIS regulatory asset, as shown by the following language:

Parties agree that the Hawaiian Electric Companies shall continue to accrue AFUDC on the recoverable CIS project deferred costs, including the expenses removed from the Hawaiian Electric 2011 test year and the MECO 2012 test year, and CIS project expenses incurred through the in-service date as agreed in the Hawaiian Electric 2011 Rate Case Settlement Agreement and the MECO 2012 Rate Case Settlement Agreement, until the Commission has approved this Stipulated Settlement and the RBA Rate Adjustment that includes the CIS project costs goes into effect. Amortization of CIS project deferred costs would commence on the effective date of the RBA Rate Adjustment for Hawaiian Electric, MECO and HELCO that includes the recovery of the project costs and the associated amortization expense. The Parties agree that the RAM Revenue Adjustment for 2013 and subsequent years thereafter and

¹² Per MECO Schedule D1, the Company has proposed a beginning balance at May 31, 2013, in the amounts of \$2,797,000 for the CIS Deferred Cost.

subsequent rate cases for Hawaiian Electric, MECO and HELCO would reflect revenue requirements related to including the deferred CIS costs that the Parties agree to be recoverable, including the estimated carrying charges through the effective date of the RBA that includes the RAM revenue adjustment for these items and the amortization expense for the amortization of the recoverable deferred costs including carrying charges, with the recovery period not to exceed the twelve year amortization period approved by the Commission in Docket No. 04-0268. See Exhibit 3. [Stipulated Settlement Agreement, Exhibit 1, page 3]

The fourth CA Adjustment appearing on page one of Attachment 1 is to reduce average rate base by about \$44,500 to recognize the beginning balances for this regulatory asset at December 2012.

C. EARNINGS SHARING REVENUE CREDITS.

The RBA Rate Adjustment proposed by MECO on Schedule A does not include at line 8 any reduction for "Earnings Sharing Revenue Credits" based upon the calculations set forth at Schedule H. This is because MECO earnings were insufficient to trigger the form of credits that are specified in the "Evaluation Period Earnings Sharing" section of the RAM tariff. MECO's calculations on Schedule H begin with the "Reported Operating Income before ratemaking adjustment" that appears at page 2A of the Company's December 2012 Monthly PUC Report and a calculation of "Rate Base" that is set forth in MECO-WP-H-001. After ratemaking adjustments, Schedule H contains a calculation of an updated ratemaking capitalization and weighted cost of capital, synchronization of income tax interest deductions and removal of income for preferred stock. At line 20 of Schedule H, MECO has calculated a "Return on Equity for Decoupling Earnings Sharing" of 6.69%, which is below the Commission-authorized return on equity of 10.0% and therefore does not trigger sharing of excess earnings.

The Consumer Advocate has reviewed the Company's calculations on Schedule H and proposes one adjustment that has the effect of increasing the calculated "Return on Equity" but does not trigger any Earnings Sharing Revenue Credits that would be used to calculate the RBA Rate Adjustment.

1. Rate Base Working Cash Allowance.

In calculating the 2012 "Earnings Sharing Revenue Credits" on Schedule H, MECO used a Rate Base value of \$402,974,000. As supported by MECO-WP-H-001, this rate base amount includes average Working Cash (or cash working capital) of \$11,350,000. In the settlement of the Company's preceding test year rate case, the amount of Working Cash included in rate base and fixed for Rate Base RAM purposes was \$10,657,000. See Schedule D1, line 21.

The Consumer Advocate's position is that Working Cash should not be included in rate base for purposes of calculating "Earnings Sharing Credits" at a value different from the fixed amount included the Rate Base RAM for several reasons:

- Working Cash is a complex ratemaking issue that requires extensive calculations in the form of a lead lag study. Each such study undertaken in a general rate case is time consuming for both the Company to assemble and the Consumer Advocate to review. At revised sheet 96G of the Rate Adjustment Mechanism tariff, part (f) subpart vi. of Section 2 states that "Working Cash and all other elements of rate base not specifically addressed above shall be fixed at the dollar amount approved by the Commission" in the Company's last rate case.
- The results of a lead lag study are dependent on the transactions, facts and circumstances unique to the period selected for review. As transactions, facts and circumstances change over time, both expense amounts and payment patterns may also change and new items that merit unique consideration and analysis may arise.
- Since the Rate Adjustment Mechanism tariff fixes the Working Capital amount includable in Rate Base RAM, the efforts undertaken in the prior rate case and

approved by the Commission to quantify the amount of Working Cash includable in rate base should not be replaced or superseded by calculations in a decoupling tariff transmittal whose review is conducted on an expedited basis with no opportunity for the needed discovery, analysis and testimony that would occur in a rate case.

- Other than Working Cash, the amounts recorded in the general ledger (or the balance sheet) serve as the primary source for the various rate base items shown on MECO-WP-H-001 and used for earnings sharing calculation purposes. While it is appropriate to reflect more recent actual values in rate base for earnings sharing purposes, adjusted to reflect regulatory requirements as necessary, Working Cash is not represented by one or more accounts recorded on the balance sheet.
- Because the amount of Working Cash is a calculated or derived value for ratemaking purposes and Rate Base RAM fixes this amount for RAM purposes, the determination of earnings sharing credits, if any, should not be influenced either positively or negatively by side calculations that produce a higher or lower Working Cash allowance.

The fifth CA Adjustment appearing on page one of Attachment 1 reduces average rate base used on Schedule H for earnings sharing purposes by about \$693,000 to fix Working Cash at the amount last approved by the Commission in Docket No. 2011-0092 in the amount that is consistent with Schedule D1. For purposes of this RBA/RAM filing, no earnings sharing credits were determined to apply whether this adjustment to Working Cash is or is not recognized.

III. CONCLUSIONS AND RECOMMENDATIONS.

For the reasons set forth herein, the Consumer Advocate recommends that the calculated adjustment to revenues proposed by MECO in its Transmittal No. 13-01 should be modified as shown in Attachment 1 to this Statement of Position.

DATED: Honolulu, Hawaii, May 6, 2013.

Respectfully submitted,

By 
JEFFREY T. ONO
Executive Director

DIVISION OF CONSUMER ADVOCACY

MAUI ELECTRIC COMPANY, LTD.
DECOUPLING CALCULATION WORKBOOK
CA ADJUSTED 2013 REVENUE BALANCING ACCOUNT RATE ADJUSTMENT
SUMMARY OF CA ADJUSTMENTS

<u>Line No.</u>	<u>Description</u> (a)	<u>Schedule Reference</u> (b)	<u>CA Adjustment Amount</u> (c)
1	Recorded Adjusted Revenues in May 2012 were revised to reflect reverse MECO's elimination of terminated Rate Schedules H and K, correct the presentation of fuel and purchase power removed from base revenues and correct the prorate of May 2012 revenues due to the rate change effective May 4, 2012 in Docket No. 2009-0163. See MECO Responses to CA Informal RBA Questions #3 & #4, revised 5/2/13.	B2, col. (b) & (c)	\$ (42,950)
2	Accumulated Deferred Income Taxes in rate base were revised to eliminate the proposed Deferred Tax Asset for estimated Net Operating Loss Carryforward amounts improperly included in HECO's transmittal. See MECO Response to CA Informal RAM Question #1, Revised.	D4, line 3	\$ (5,771,709)
3	Estimated 2013 tax depreciation used to calculate 2013 ADIT balances at Schedule F1 should be revised to assume that 100 percent of basis additions in the "Projects" column are subject to 50% bonus tax depreciation in 2013. See MECO Response to CA Informal RAM Question #3.	F1, Projects	100%
4	The Schedule D1 beginning Rate Base amount for CIS Deferred Cost was restated to December 2012 actual balance, consistent with the other components of rate base.	D1, line 10	\$ (44,500)
5	The Schedule H Rate Base amount used for Earnings Sharing includes a Working Cash amount that is inconsistent with the findings in the Company's most recent rate order. An adjustment is made to rate base for Earnings Sharing Credit computation to conform Working Cash. See MECO-WP-H-001 Rate Base versus Sch D1.	H, line 2e	\$ (692,950)

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF 2013 REVENUE BALANCING ACCOUNT RATE ADJUSTMENT

Line No.	Description (a)	Reference (b)	Amount (c)	Rate Amount (d)
<u>RECONCILIATION OF RBA BALANCE:</u>				
1	RBA Prior calendar year-end balance	Schedule B	\$ 5,314,537	
2	Revenue Tax Factor	Schedule C	1.0975	
3	Revenue for RBA Balance			\$ 5,832,704
<u>RATE ADJUSTMENT MECHANISM "RAM" AMOUNT:</u>				
4	O&M RAM	Schedule C	\$ 1,019,952	
5	Rate Base RAM - Return on Investment	Schedule D	\$ 1,721,413	
6	Depreciation & Amortization RAM Expense	Schedule E, p. 3	\$ 676,567	
7	Total RAM Revenue Adjustment			\$ 3,417,932
8	<u>EARNINGS SHARING REVENUE CREDITS - 2012 ROE:</u>	Schedule H		\$ -
9	<u>PUC-ORDERED MAJOR OR BASELINE CAPITAL PROJECTS CREDITS:</u>	Schedule I		\$ -
10	TOTAL RBA REVENUE ADJUSTMENT	Sum Col. (d)		\$ 9,250,636
11	GWH SALES VOLUME ESTIMATE JUNE 1, 2013 - MAY 31, 2014 (see MECO-WP-A-001)			1,146.121
12	RBA RATE ADJUSTMENT - ¢ per kWh	Note (1)		<u>0.8071</u>
13	MONTHLY BILL IMPACT @ 600 KWH - Maui Division			<u>\$ 4.84</u>
14	MONTHLY BILL IMPACT @ 400 KWH - Molokai and Lanai Divisions			<u>\$ 3.23</u>

Note (1): 2013 RBA Rate Adjustment Breakdown

	Col. (d)	Rate Adjustment cents per kWh	Percentage Share
RBA Balance	\$ 5,832,704	0.50890821	63.05%
RAM Amount	\$ 3,417,932	0.29821737	36.95%
Earnings Sharing Revenue Credits	\$ -	0.00000000	0.00%
Major or Baseline Capital Projects Credits	\$ -	0.00000000	0.00%
	\$ 9,250,636	0.80712558	100.00%

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
SUMMARY OF ACCUMULATED REVENUE BALANCING ACCOUNT

Line No.	Month	Beginning Balance	Target Revenues	Recorded Adjusted Revenue	Variance to RBA	Interest at 6%/year	Adjustment	Ending Balance
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Monthly RBA Balance and Activity (Monthly PUC Rpt., Pg. 9A)								
1	2012 March	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	April	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	May	\$ -	\$ 8,890,252	\$ 8,609,800	\$ 280,452	\$ 701	\$ -	\$ 281,153
4	June	\$ 281,153	\$ 11,012,872	\$ 10,010,824	\$ 1,002,048	\$ 26,204	\$ (2,641)	\$ 1,306,762
5	July	\$ 1,306,762	\$ 11,478,752	\$ 10,559,619	\$ 919,133	\$ 8,719	\$ (22,522)	\$ 2,212,092
6	August	\$ 2,212,092	\$ 11,646,986	\$ 10,721,765	\$ 925,221	\$ 13,374	\$ -	\$ 3,150,687
7	September	\$ 3,150,687	\$ 10,792,874	\$ 9,965,379	\$ 827,495	\$ 17,811	\$ (2,198)	\$ 3,993,794
8	October	\$ 3,993,794	\$ 11,362,282	\$ 10,746,704	\$ 615,578	\$ 21,508	\$ -	\$ 4,630,880
9	November	\$ 4,630,880	\$ 10,598,757	\$ 10,037,724	\$ 561,033	\$ 24,552	\$ (1,007)	\$ 5,215,458
10	December	\$ 5,215,458	\$ 10,521,111	\$ 10,446,078	\$ 75,033	\$ 26,245	\$ (4,005)	\$ 5,312,731
11	January 2013 Adjustment - Note (2)							\$ 1,806
12	REVISED 2012 December							\$ 5,314,537
13								
14	2013 January	\$ -	\$ 10,728,168	\$ -	\$ -	\$ -	\$ -	\$ -
15	February	\$ -	\$ 9,511,705	\$ -	\$ -	\$ -	\$ -	\$ -
16	March	\$ -	\$ 10,715,227	\$ -	\$ -	\$ -	\$ -	\$ -
17	April	\$ -	\$ 10,197,583	\$ -	\$ -	\$ -	\$ -	\$ -
18	May	\$ -	\$ 10,844,638	\$ -	\$ -	\$ -	\$ -	\$ -
19	June	\$ -	\$ 11,277,895	\$ -	\$ -	\$ -	\$ -	\$ -
20	July	\$ -	\$ 11,754,986	\$ -	\$ -	\$ -	\$ -	\$ -
21	August	\$ -	\$ 11,927,268	\$ -	\$ -	\$ -	\$ -	\$ -
22	September	\$ -	\$ 11,052,602	\$ -	\$ -	\$ -	\$ -	\$ -
23	October	\$ -	\$ 11,635,713	\$ -	\$ -	\$ -	\$ -	\$ -
24	November	\$ -	\$ 10,853,814	\$ -	\$ -	\$ -	\$ -	\$ -
25	December	\$ -	\$ 10,774,299	\$ -	\$ -	\$ -	\$ -	\$ -

Sources of Data: Sch. B1 Sch. B2 Col (c) - (d) Note 1 Cols b+e+f+g

Note (1): Adjustment Summary:

Month	Workpaper Reference	RBA True-up Adjustment Sch B2, Line 18	RBA Interest Adjustments	Total Adjustment	Adjustment Description
June	MECO-WP-B-001	(2,634)	(7)	(2,641)	Error in May RBA calculation
July	MECO-WP-B-002	-	(22,522)	(22,522)	Calculation error for June interest
September	MECO-WP-B-003	(2,171)	(27)	(2,198)	Correction for misapplication of surcharge factors to June RBA
November	MECO-WP-B-004	(999)	(8)	(1,007)	Out of period billing adjustments
December	MECO-WP-B-005	(3,894)	(111)	(4,005)	Out of period billing adjustments

Note (2):

In January 2013, the Company recorded an adjustment to the RBA related to an out of period customer billing adjustment that was processed in January 2013 for revenue related to the period of January - October 2012. The Company recalculated the RBA as of December 31, 2012, including interest, based on reflecting the billing adjustment in the proper month. See MECO-WP-B-006.

**MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF RECORDED ADJUSTED REVENUES**

Note: MECO's implementation of decoupling began on May 4, 2012, pursuant to Decision and Order No. 30365, issued in Docket No. 2009-0163, on May 2, 2012, which approved the effective date of the final rates that reflected the approved ROE of 10.00 percent which reflects the Commissions approval of decoupling and other cost-recovery mechanisms.

Line No.	Description	May 2012	May Prorated ⁽²⁾	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
BILLED REVENUES:										
1	Current month's billed revenues	32,925,366	29,729,540	37,002,379	39,304,924	39,398,231	32,791,245	35,976,680	37,672,364	38,071,123
2	Remove non-electric revenues adjustments ⁽³⁾	(115,061)	(103,926)	-	-	-	-	-	-	-
3	Remove PBF revenues	(363,062)	(327,627)	(404,067)	(425,949)	(446,478)	(386,672)	(415,880)	(412,996)	(398,640)
4	Remove Solar Saver non-revenues	32,820	29,644	6	(2)	-	0	0	-	(1)
5	Other entries	(4,779)	(4,317)	38,222	(6,741)	(6,588)	(3,445)	(2,385)	(5,256)	(7,398)
6 =										
sum 1-5	BILLED REVENUES	32,475,284	29,332,515	36,636,540	38,872,232	38,945,165	32,401,128	35,558,414	37,254,112	37,665,084
UNBILLED REVENUES										
7	Current month's unbilled revenue	20,284,721	18,329,950	20,324,362	18,890,965	16,257,151	16,811,956	17,933,869	18,422,839	19,320,158
8	Reverse prior month's unbilled revenues	(16,561,495)	(14,958,775)	(20,284,721)	(20,324,362)	(18,890,965)	(16,257,151)	(16,811,956)	(17,933,869)	(18,422,839)
9 =										
7+8	Unbilled revenues per Unbilled Sales and Revenue Estimate	3,723,226	3,371,180	39,642	(1,433,397)	(2,633,814)	554,804	1,121,913	488,970	897,319
10	Adjustment for ECAC accrual	(511,700)	(462,181)	(810,800)	(287,000)	(504,300)	166,200	732,500	(1,149,400)	(183,100)
11	Reversal of ECAC accrual	333,866	301,556	333,866	333,868	464,565	464,565	464,570	208,367	208,367
12	Adjustment for PPAC accrual	(62,700)	(62,700)	12,500	(43,800)	(28,300)	(68,400)	(79,900)	(75,100)	(74,900)
13	Reversal of PPAC accrual	-	-	-	-	16,734	16,734	16,732	46,833	46,833
14	IRP Non-Labor Adjustment	-	-	-	(83,545)	5,349	(2,455)	(9,095)	(4,916)	(26,528)
15	Accrual of customer refund	-	-	-	-	-	-	-	-	(82,587)
16	RBA gross up for revenue taxes	-	-	120,617	89,628	90,222	80,692	60,028	54,709	7,317
17	Accrual of current month's RBA (PUC Monthly Financial Report pg. 9A)	237,500	237,500	1,002,048	919,132	925,221	827,494	615,579	561,034	75,033
18	Adjust prior month RBA	-	-	(2,634)	-	-	(2,171)	-	(969)	(3,894)
19	Revenue taxes on prior month adjustment	-	-	-	-	-	(212)	-	(97)	(380)
20 =										
sum 10-19	Miscellaneous unbilled accruals	(3,034)	14,176	655,597	928,283	969,491	1,482,447	1,800,414	(359,569)	(33,839)
21 =										
9+20	UNBILLED REVENUES	3,720,192	3,385,356	695,239	(505,114)	(1,664,323)	2,037,251	2,922,327	129,401	863,480
22 =										
6+21	TOTAL REVENUES PER G/L (PUC Monthly Financial Report pg. 3)	36,195,476	32,717,871	37,331,779	38,367,117	37,280,843	34,438,380	38,480,741	37,383,513	38,528,564
Billed Adjustments to Determine Adjusted Revenues for RBA:										
23	Remove 2010 interim increase	(376,180)	(339,775)	(6,762)	3	(29)	(2)	(1)	-	-
24	Remove ECAC revenues	(7,882,694)	(7,119,853)	(11,166,223)	(11,244,136)	(9,996,446)	(7,388,064)	(8,440,160)	(10,576,845)	(11,757,114)
25	ECAC surcharge adjustment	-	-	7,271,580	7,773,549	8,193,547	7,005,829	7,633,127	7,508,777	7,273,567
26	Remove PPAC revenues	(53,304)	(48,146)	(154,531)	(165,141)	(165,946)	(134,751)	(146,612)	(127,671)	(108,485)
27	Remove DSM/IRP/SS revenues	(10,851)	(9,801)	(11,715)	(12,708)	(13,704)	(11,246)	(12,694)	(12,119)	(11,952)
28	Remove billing adjustments (net of revenue taxes)	-	-	-	-	7,111	-	-	9,136	(3,894)
29	Remove revenue taxes of PBF revenues	(24,763)	(22,367)	(27,559)	(29,052)	(30,452)	(26,373)	(28,365)	(28,168)	(27,189)
30	Remove revenue earned prior to decoupling (net of revenue taxes)	-	-	(13,934)	13,055	-	-	131	-	-
31	Remove revenue taxes on billed revenues	(2,143,728)	(1,936,370)	(2,891,297)	(3,127,053)	(3,281,420)	(2,829,563)	(3,070,986)	(3,022,507)	(2,935,063)
32	Remove base fuel (adjusted for revenue taxes)	(10,455,117)	(9,425,267)	(16,591,823)	(17,756,090)	(18,688,850)	(16,006,777)	(17,415,675)	(17,157,120)	(16,595,390)
33	Remove power purchase energy (adjusted for revenue taxes)	(1,709,035)	(1,538,225)	(3,366,074)	(3,579,440)	(3,789,837)	(3,227,964)	(3,531,520)	(3,457,892)	(3,361,635)
Unbilled Adjustments to Determine Adjusted Revenues for RBA:										
34	Remove 2010 interim increase	312,287	282,068	5,491	27	-	-	-	-	-
35	Remove ECAC revenues	(2,994,013)	(2,704,270)	126,089	908,741	1,408,671	36,016	(704,696)	(1,302,241)	(229,565)
36	ECAC surcharge adjustment	-	-	3,976,095	(156,849)	(355,571)	195,092	94,984	(201,762)	157,909
37 =										
10+11	Remove ECAC accrual	177,834	160,624	476,934	(46,868)	39,735	(630,765)	(1,197,070)	941,033	(25,267)
38	Remove PPAC revenues	(85,442)	(85,442)	1,311	2,577	14,881	(3,370)	(1,798)	19,351	(2,316)
39	Remove PPAC accrual	62,700	62,700	(12,500)	43,800	11,566	51,666	63,168	28,267	28,067
40	Remove DSM revenues	(1,053)	(950)	(43)	348	788	(646)	21	182	83
41 = 14	Remove IRP Non-labor adjustment	-	-	-	83,545	(5,349)	2,455	9,095	4,916	26,528
42 = 15	Remove accrual of customer refund	-	-	-	-	-	-	-	-	82,587
43 = 17-										
19	Remove RBA accruals	(237,500)	(237,500)	(999,414)	(919,132)	(925,221)	(825,111)	(615,579)	(559,938)	(70,759)
44 = 16	Remove RBA gross up for revenue taxes	-	-	(120,617)	(89,628)	(90,222)	(80,692)	(60,028)	(54,709)	(7,317)
45	Remove revenue taxes on unbilled revenues	(84,852)	(75,641)	(368,602)	60,289	139,054	(69,471)	(45,351)	88,450	(73,162)
46	Remove base fuel (adjusted for revenue taxes)	(1,025,513)	(926,270)	(2,661,241)	369,677	799,230	(435,068)	(227,415)	465,933	(376,375)
47	Remove power purchase energy (adjusted for revenue taxes)	(157,975)	(142,687)	(786,120)	62,986	169,387	(94,195)	(36,615)	89,139	(65,744)
48 =										
sum 23-47	Total billed and unbilled adjustments to determine adjusted revenues for RBA	(26,663,198)	(24,108,073)	(27,320,955)	(27,807,500)	(26,559,077)	(24,473,001)	(27,734,039)	(27,345,789)	(28,082,486)
49 =										
22+48	RECORDED ADJUSTED REVENUES FOR RBA DETERMINATION⁽¹⁾ (PUC Monthly Financial Report pg. 9A.1)	9,532,277	8,609,800	10,010,824	10,559,619	10,721,765	9,965,379	10,746,704	10,037,724	10,446,078

⁽¹⁾ Amounts may not add due to rounding

⁽²⁾ Revenue decoupling became effective for Maui Electric Company, Ltd. on May 4, 2012. The May balances were prorated for May 4 -31, 2012, as considered necessary based on the nature of the adjustment.

⁽³⁾ June 2012 was the first full month in which the new SAP Monthly Electric Report was used. The new report does not include non-electric revenues, therefore adjustments are no longer necessary.

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF RATE BASE RAM ADJUSTMENT - RETURN ON INVESTMENT

Line No.	Description (a)	AMOUNTS (IN THOUSANDS) (b)	PERCENT OF TOTAL (c)	COST RATE (d)	POST TAX WEIGHTED EARNINGS REQMTS (e)	INCOME TAX FACTOR Note (1) (f)	PRETAX WEIGHTED EARNINGS REQMTS (g)
1	<u>PUC APPROVED CAPITAL STRUCTURE & COSTS</u> (Revised Updated Joint Statement of Probable Entitlement, Docket No. 2011-0092, May 14, 2012, Att. 1A, page 2):						
2	Short-Term Debt	\$ 5,003	1.23%	1.25%	0.02%	1.000000	0.02%
3	Long-Term Debt	156,370	38.44%	5.06%	1.95%	1.000000	1.95%
4	Hybrid Securities	9,373	2.30%	7.32%	0.17%	1.000000	0.17%
5	Preferred Stock	4,744	1.17%	8.25%	0.10%	1.636929	0.16%
6	Common Equity	231,310	56.86%	10.00%	5.69%	1.636929	9.31%
7	Total Capitalization	<u>\$ 406,800</u>	<u>100.00%</u>		<u>7.91%</u>		<u>11.59%</u>
8	RAM CHANGE IN RATE BASE \$000 (From Schedule D1)						<u>\$ 13,533</u>
9	PRETAX RATE OF RETURN (Line 7, Col g)						<u>11.59%</u>
10	PRETAX RETURN REQUIREMENT						<u>\$ 1,568.5</u>
11	REVENUE TAX FACTOR (1/(1-8.885%))						<u>1.0975</u>
12	RATE BASE RAM - RETURN ON INVESTMENT \$000						<u>\$ 1,721.4</u>

* Amounts may not add due to rounding.

Footnote:

(1) Composite Federal & State Income Tax Rate
Income Tax Factor (1 / 1-tax rate)

38.91%
1.636929121

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF RATE BASE RAM ADJUSTMENT - CHANGE IN RATE BASE
(000's)

Line No.	Description (a)	MECO 2012 Test Year Rate Base Note (2)		MECO 2013 RAM Rate Base		
		Beg. Balance 12/31/2011 (b)	Budgeted Balance 12/31/2012 (c)	Adjusted Recorded at 12/31/2012 (d) Note (1)	RAM Projected Amounts (e) See Detail Below	Estimated at 12/31/2013 (f)
1	Net Cost of Plant in Service	\$ 465,783	\$ 493,298	\$ 497,613	\$ 16,200	\$ 513,812
2	Property Held for Future Use	1,303	1,303	These Elements of Rate Base are Not Updated for RAM Purposes		
3	Fuel Inventory	18,577	18,577			
4	Materials & Supplies Inventories	13,387	13,387			
5	Unamort Net SFAS 109 Reg Asset	8,405	8,642			
6	Pension Asset	3,453	4,377			
7	Unamort OPEB Reg Asset	344	261			
8	Unamort Sys Dev Costs	1,240	1,487			
9	Contrib in Excess of NPPC	3,101	8,400			
10	CIS Deferred Cost			2,708	(47)	2,661
11	not used			Not Updated		
12	Total Additions	\$ 515,593	\$ 549,732	\$ 553,442	\$ 16,153	\$ 569,595
13	Unamortized CIAC	\$ (74,766)	\$ (83,821)	\$ (82,211)	\$ (5,110)	\$ (87,321)
14	Customer Advances	(4,649)	(4,599)	Not Updated		
15	Customer Deposits	(4,346)	(4,812)			
16	Accumulated Def Income Taxes	(42,143)	(55,718)	(55,920)	(5,721)	(61,641)
17	Unamortized State ITC (Gross)	(12,150)	(12,752)	Not Updated		
18	Unearned Interest Income	-	-			
19	Unamortized Gain on Sale	-	-			
20	Total Deductions	\$ (138,054)	\$ (161,702)	\$ (159,785)	\$ (10,832)	\$ (170,616)
21	Working Cash	10,657	10,657	10,657	Not Updated	10,657
22	Rate Base at Proposed Rates	\$ 388,196	\$ 398,687	\$ 404,315		\$ 409,636
23	Average Rate Base		\$ 393,442			\$ 406,975
24	Change in Rate Base					\$ 13,533

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	Reference	Amount
25	<u>Column (e) Projected Changes to Rate Base:</u>	
26	Plant - Baseline Capital Project Additions	Schedule D2 36,040
27	Major CIP Project Additions	Schedule D3 2,156
28	Accumulated Depreciation/Amortization Change	Schedule E (21,996)
29	Net Plant	Sum Lines 26-28 16,200
30	Accum. Deferred Income Taxes - Baseline and Major Capital Projects	Schedule F (5,721)
31	Projected CIAC Additions - Baseline	Schedule G1 (6,844)
32	Projected CIAC Additions - Major CIP	Schedule D3 -
33	Less: Amortization of CIAC	Schedule G 1,734
34	Total Change in CIAC in Rate Base	Sum: Lines 31-33 (5,110)

* Amounts may not add due to rounding

Notes:

(1) Amounts are recorded, except for the following adjustments:

	Plant in Service	Acc. Depr.	CIAC Net	Schedule D4 ADIT
(A) Unadjusted Balance - recorded	\$ 954,203	\$ (423,762)	\$ (82,211)	\$ (55,954)
(A) Add: Asset Retirement Obligation		\$ (256)		
(A) Reg Liab-Cost of Removal (net salvage)		\$ (35,750)		
Adjustment:				
Lanai CHP*	3,500	(322)	-	-
Total Adjustment	\$ 3,500	\$ (322)	\$ -	\$ -
CIS Adjustment (Note 3)				\$ 35
Adjusted Balance	\$ 957,703	\$ (460,090)	\$ (82,211)	\$ (55,920)

* **Lanai CHP:** As discussed in the Stipulated Settlement Letter in Docket No. 2009-0163, filed on 06/21/2010, MECO accepted the Consumer Advocate's recommendation that the ratemaking treatment for the Lanai CHP Agreement follow traditional utility plant asset accounting rather than direct financing lease treatment as required for public financial reporting. MECO agreed to permanently adjust the original cost of the CHP system to \$3.5 million.

(A) Source: Maui Electric Company, Limited Monthly Financial Report - December 2012, filed February 19, 2013.

(2) Column (b) & (c) from Docket No. 2011-0092, Interim D&O No. 30396, Exhibit B, filed May 21, 2012.

(3) See Hawaiian Electric 2009 Test Year Rate Case Stipulated Settlement Agreement between the Hawaiian Electric Companies and the Division of Consumer Advocacy regarding Certain Regulatory Matters, filed January 28, 2013 in Docket No. 2008-0083.

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF ADJUSTED RECORDED DEFERRED INCOME TAXES

Line No.	NARUC Account (a)	Reference (b)	Federal ADIT (c)	State ADIT (d)	Total ADIT (e)
1	Recorded Deferred Income Tax Balances December 31, 2012 Recorded Balances				
2	Depreciation Related Account 282	MECO-WP-D4-001	(33,215,171)	(2,079,626)	(35,294,797)
3	Other Deferred Income Taxes	MECO-WP-D4-001	(17,819,391)	(2,839,943)	(20,659,334)
4	Total Recorded Deferred Income Taxes - Utility		(51,034,562)	(4,919,569)	\$ (55,954,131)
5	Less: Adjustments to Recorded Balances:				
6	ADIT Relating to CIS adjustments for carrying costs	Note (1)	29,217	5,342	34,559
7	Total Adjustments to Recorded ADIT Balances		29,217	5,342	34,559
8	Adjusted Recorded Deferred Income Taxes - 12/31/12		(51,005,345)	(4,914,227)	\$ (55,919,572)
					To Schedule D1

Footnotes:

(1)	<u>ADIT Computation:</u>	<u>AFUDC Debt</u>	<u>32.8947% FED</u>	<u>6.0150% STATE</u>	<u>TOTAL</u>
A	Reversal of 2012 Carrying Charge at Incremental Full Debt	(113,472)	37,326	6,825	44,151
B	AFUDC Debt (Jan-May 2013)	24,651	(8,109)	(1,483)	(9,592)
	Total	(88,821)	29,217	5,342	34,559

Adjustments from recorded to regulatory bases:

		<u>AFUDC Equity (C)</u>	<u>AFUDC Debt</u>	<u>TOTAL</u>
A	CIS Reg Asset Reserve	270,172	(113,472)	156,700
B	CIS carrying charge (Jan. - May 2013)	64,283	24,651	88,934
	Total	334,455	(88,821)	245,634

SOURCE:

- A See MECO-WP-D1-002 CIS, page 5
B See MECO-WP-D1-002 CIS, page 4

NOTES:

- A Differential between regular AFUDC debt incurred or allowed for regulatory purposes and AFUDC using full debt rate on allowed base (required for financial accounting, per PwC). Represents incremental AFUDC at full debt rate.

	<u>2012</u>
AFUDC Debt - full debt	214,458
Less: AFUDC Debt	100,986
Base on which ADIT is calculated	113,472

- B Cumulative AFUDC debt for 1/1/13 - 5/31/13; NOT full debt differential since 2013 full debt was not recorded as of 12/31/12.

- C Adjustments to AFUDC Equity did not impact ADIT. Settlement did not provide for the tax gross up of AFUDC Equity, which would have increased Reg Asset with an offsetting increase in ADIT. This gross up adjustment, although generally recorded for financial purposes, has no impact on rate base.

SCHEDULE F
(WITH SETTLEMENT)
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Attachment 1
Trans. 13-01
CA SOP
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MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF CHANGE IN DEFERRED INCOME TAXES

Line No.	NARUC Account (a)	Reference (b)	Projected ADIT Change (c)
1	State Tax Depreciation	Schedule F1	1,332,315
2	Effective Federal Tax Rate	MECO-WP-F-001	32.8947368%
3	Federal Deferred Tax on State Tax Depreciation		438,262
4	Add back State Tax Depreciation		(1,332,315)
5	Federal Tax Depreciation	Schedule F1	16,197,978
6	Federal/State Difference		14,865,663
7	Tax Rate on Federal Only Adjustment	MECO-WP-F-001	35%
8	Federal Deferred Tax Adjustment		5,202,982
9	Total Federal Deferred Taxes		5,641,244
	STATE DEFERRED TAXES		
10	State Tax Depreciation	Schedule F1	1,332,315
11	Effective State Tax Rate	MECO-WP-F-001	6.0150376%
12	Total State Deferred Taxes		80,139
13	TOTAL FED AND STATE DEFERRED TAXES		5,721,383
			<i>To Schedule D1</i>

NOTE: In accordance with the tariff, the change in ADIT in the RAM year is based on the temporary book/tax depreciation differences associated with the RAM year plant additions (major capital projects and baseline plant additions). It does not include any estimated ADIT related to the repairs deduction or CIAC on RAM year plant additions.

**MAUI ELECTRIC COMPANY, LTD.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF TAX DEPRECIATION**

Line No.	MECO-WP-F1-002						
	LIFE	PROJECTS	PROGRAMS	TOTAL	PROJECTS	PROGRAMS	TOTAL
1 Computer Data	5	386,273	82,852	469,125	1.07%	0.23%	1.30%
2 Comp/Off/Furn/Tools	7	10,170	6,196	16,366	0.03%	0.02%	0.05%
3 Street Lights	7	123,727	92,080	215,807	0.34%	0.26%	0.60%
4 Non-Steam Production	15	3,882,965	99,620	3,982,585	10.77%	0.28%	11.05%
5 Communication	20	693,488	31,207	724,695	1.92%	0.09%	2.01%
6 Steam Production	20	785,587	54,673	840,260	2.18%	0.15%	2.33%
7 General	20	2,030,807	352,421	2,383,228	5.64%	0.98%	6.61%
8 Transmission	20	2,533,893	1,035,313	3,569,206	7.03%	2.87%	9.90%
9 Distribution	20	10,487,621	11,148,907	21,636,528	29.10%	30.94%	60.04%
10 Structural	39	992,326	208,649	1,200,975	2.75%	0.58%	3.33%
11 ROW	50	4,464	42,506	46,970	0.01%	0.12%	0.13%
12 Land	-	-	-	-	0.00%	0.00%	0.00%
13 Vehicles	-	73,507	880,676	954,183	0.20%	2.44%	2.65%
14 TOTAL		22,004,828	14,035,100	36,039,928	61.06%	38.94%	100.00%

Project and Program % Totals by Depreciable Life:

5 yr	1.07%	0.23%	1.30%
7 yr	0.37%	0.27%	0.64%
15 yr	10.77%	0.28%	11.05%
20 yr	45.87%	35.03%	80.90%
39 yr	2.75%	0.58%	3.33%
50 yr	0.01%	0.12%	0.13%
Land	0.00%	0.00%	0.00%
Vehicles	0.20%	2.44%	2.65%
Total	61.06%	38.94%	100.00%

BASIS	FED YR 1 TAX RATE	FED YR 1 TAX DEPR	STATE YR 1 TAX RATE	STATE YR 1 TAX DEPR
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NOTE (1)

Basis subject to 50% bonus

100% 100%

Vintage 2013 - 50% bonus

5 yr	1.07%	0.23%	1.30%
7 yr	0.37%	0.27%	0.64%
15 yr	10.77%	0.28%	11.05%
20 yr	45.87%	35.03%	80.90%
39 yr	n/a	n/a	n/a
50 yr	n/a	n/a	n/a
Land	n/a	n/a	n/a
Vehicles	n/a	n/a	n/a
Total	58.09%	35.80%	93.89%

5 yr	400,702	60.000%	240,421	20.00%	80,140
7 yr	197,889	57.145%	113,084	14.29%	28,278
15 yr	3,400,734	52.500%	1,785,385	5.00%	170,037
20 yr	24,896,144	51.875%	12,914,875	3.75%	933,605

Vintage 2013 - regular

Basis subject to regular depr.

(Total less amounts subject to 50% bonus)

5 yr	0.00%	0.00%	0.00%
7 yr	0.00%	0.00%	0.00%
15 yr	0.00%	0.00%	0.00%
20 yr	0.00%	0.00%	0.00%
39 yr	2.75%	0.58%	3.33%
50 yr	0.01%	0.12%	0.13%
Land	n/a	n/a	n/a
Vehicles	n/a	n/a	n/a
Total	2.77%	0.70%	3.46%

5 yr	-	20.00%	-	20.00%	-
7 yr	-	14.29%	-	14.29%	-
15 yr	-	5.00%	-	5.00%	-
20 yr	-	3.75%	-	3.75%	-
39 yr	1,025,452	1.177%	12,070	1.177%	12,070
50 yr	40,009	1.000%	400	1.000%	400

TOTAL ASSETS

60.85% 36.50% 97.35%

Net Depreciable Baseline Plant Adds

29,960,930

15,066,235

1,224,530

Major Capital Projects from Schedule F2

2,155,700

1,131,743

107,785

Total Depreciable Plant Adds

32,116,630

16,197,978

1,332,315

Reconciliation from Baseline Plant Adds to Net Depreciable Plant Adds:

Baseline Capital Projects Plant Adds

36,039,928

Less: Repairs deduction

MECO-WP-F1-001, pg. 1 5,264,053

<<supported by Special Study each year.

Net plant add basis

30,775,875

Less: Land and Vehicles (2.65% x 30,775,875)

814,944

29,960,931

NOTE (1): The American Taxpayer Relief Act of 2012 allows 50% bonus depreciation for assets placed in service in 2013. 100% bonus depreciation is no longer available for property placed in service after 12/31/12. This schedule was modified from the template that was previously provided to the Commission to eliminate the section related to 100% bonus depreciation.

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
EARNINGS SHARING CALCULATIONS
All Amounts \$000 (Except %)

Line No.	Description (a)	Reference (b)	Ratemaking Basis Return on Equity		
			Operating Income (c)	Rate Base (d)	Rate of Return (e)
1	Reported Operating Income b/4 ratemaking adj.	PUC Report, p. 2A and MECO-WP-H-001	\$ 24,150	\$ 402,974	
2	<u>Ratemaking Adjustments to Line 1:</u>				
2a	Incentive Compensation Expenses (net of tax)	MECO-WP-H-002	144		
2b	Discretionary and Other Expenses Not Recoverable (net of tax)	MECO-WP-H-002	58		
2c	Amortization of investment income differential	MECO-WP-H-003	9		
2d	Income tax on items to be replaced by synchronized interest	MECO-WP-H-003	(3,303)		
2e	CA Adjustment to Restate Working Cash	Sch. D1 vs. MECO-WP-H-001		(693)	
3	Ratemaking Basis Amounts - Post Tax	Sum Lines 1 & 2	\$ 21,058	\$ 402,281	
4	<u>Ratemaking Capitalization</u>				
		Balances	Ratios	Cost Rate ⁽³⁾	Weighted Cost
		MECO-WP-H-004	MECO-WP-H-004		
5	Short-Term Debt (12 mo. Avg)	\$ 3,307	0.81%	1.25%	0.01%
6	Long-Term Debt (Simple Avg)	\$ 156,364	38.49%	5.06%	1.95%
7	Hybrid Securities (Simple Avg)	\$ 9,373	2.31%	7.32%	0.17%
8	Preferred Stock (Simple Avg)	\$ 4,744	1.17%	8.25%	0.10%
9	Common Equity (Simple Avg)	\$ 232,430	57.22%	10.00%	5.72%
10	Total Capitalization	\$ 406,217	100.00%		7.94%
11	Line 3 Rate Base Amount			\$ 402,281	
12	Weighted Cost of Debt			2.13%	
13	Synchronized Interest Expense			\$ 8,556	
	Income Tax Factor			1.636929121	
13a	Synchronized Interest Expense, net of tax			\$ 5,227	
14	Post Tax Income Available for Preferred & Common (Line 3 - Line 13a)				\$ 15,831
17	Less: Preferred Income Requirement (Line 8 Weighted Cost times Rate Base)				388
18	Income Available for Common Stock				\$ 15,444
19	Ratemaking Equity Investment (Line 9 Ratio times Rate Base)				230,178
20	Return on Equity for Decoupling Earnings Sharing				6.71%
21	<u>Earnings Sharing Revenue Credits:</u>	Basis Points			
22	Achieved ROE (basis points)	671			
23	Authorized Return (basis points)	1,000			
24	ROE for sharing (basis points)	-			
25	Sharing Grid per RAM Provision	First 100 bp	Next 200 bp	All over 300 bp	Ratepayer Total
26	Distribution of Excess ROE (basis points)	0	0	0	
27	Ratepayer Share of Excess Earnings	25%	50%	90%	
28	Ratepayer Earnings Share - Basis Points	-	-	-	
29	Revenue Credit per Basis Point (Note 2)				\$ 41
30	Earnings Sharing Revenue Credits (thousands)				\$ -

Footnotes:

- Composite Federal & State Income Tax Rate
Income Tax Factor (1 / 1-tax rate) 38.91%
1.636929121
- Ratemaking Equity Investment (line 19)
Basis Point = 1/100 of a percent 0.01%
Earnings Required per Basis Point (thousands) \$ 23.02
Times: Income Tax Conversion Factor 1.636929121
Pretax Income Required per Basis Point (thousands) \$ 38
Times: Revenue Tax Conversion Factor 1.0975
Revenue Requirement per Basis Point (thousands) \$ 41
- Revised Updated Joint Statement of Probable Entitlement, Docket No. 2011-0092, Attachment 1A, page 2 (revised 5/14/12)

Maui Electric Company, Ltd.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF RECORDED ADJUSTED REVENUES

Schedule B2

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF RECORDED ADJUSTED REVENUES

Attachment 2
Page 1 of 2

Line No.	Description (a)	May 2012 (b)	Schedule H & K (c)	Subtotal (d) = (b) - (c)	May Prorated ² (f)	Support (g)
BILLED REVENUES:						
1	Current month's billed revenues	32,925,366		32,925,366	29,739,040	Attachment 1
2	Remove non-electric revenues adjustments	(115,061)		(115,061)	(103,926)	
3	Remove PBF revenues	(363,062)		(363,062)	(327,927)	
4	Remove Solar Saver non-revenues	32,820		32,820	29,644	
5	Other entries	(4,779)		(4,779)	(4,317)	
6 =						
sum 1-5	BILLED REVENUES	32,475,284	-	32,475,284	29,332,515	
UNBILLED REVENUES						
7	Current month's unbilled revenue	20,284,721		20,284,721	18,329,950	Attachment 2A
8	Reverse prior month's unbilled revenues	(16,561,495)		(16,561,495)	(14,958,770)	Attachment 2B
9 =						
7+8	Unbilled revenues per Unbilled Sales and Revenue Estimate	3,723,226	-	3,723,226	3,371,180	
10	Adjustment for ECAC accrual based on May 2012 ECAF revenue	(511,700)		(511,700)	(462,181)	Attachment 2
11	Reversal of 1/3 Q1 2012 ECAC accrual	333,866		333,866	301,556	
12	PPAC accrual	(62,700)		(62,700)	(62,700)	
13	Reversal of PPAC accrual	-		-	-	
14	Accrual of current month's RBA (PUC Monthly Financial Report pg. 9A)	237,500		237,500	237,500	Attachment 4
15 =						
sum 10-14	Miscellaneous unbilled accruals	(3,034)	-	(3,034)	14,176	
16 =						
9+15	UNBILLED REVENUES	3,720,192	-	3,720,192	3,385,356	
17 =						
6+16	TOTAL REVENUES PER G/L (PUC Monthly Financial Report pg. 3)	36,195,476	-	36,195,476	32,717,871	
Billed Adjustments to Determine Adjusted Revenues for RBA:						
18	Remove 2010 interim increase	(376,180)		(376,180)	(339,775)	Attachment 1
19	Remove ECAC revenues	(7,882,694)		(7,882,694)	(7,119,853)	
20	ECAC surcharge adjustment	-		-	-	
21	Remove PPAC revenues	(53,304)		(53,304)	(48,146)	
22	Remove DSM/IRP/SS revenues	(10,851)		(10,851)	(9,801)	
23	Remove revenue taxes of PBF revenues	(24,763)		(24,763)	(22,367)	
24	Remove revenue taxes on billed revenues	(2,143,728)		(2,143,728)	(1,936,270)	
25	Remove base fuel (adjusted for revenue taxes)	(10,435,117)		(10,435,117)	(9,425,267)	
26	Remove power purchase energy (adjusted for revenue taxes)	(1,703,035)		(1,703,035)	(1,538,225)	
Unbilled Adjustments to Determine Adjusted Revenues for RBA:						
27	Remove 2010 interim increase	312,287		312,287	282,068	Attachment 2
28	Remove ECAC revenues	(2,994,013)		(2,994,013)	(2,704,270)	
29	ECAC surcharge adjustment	-		-	-	
30 = 10+11	Remove ECAC accrual	177,834		177,834	160,624	
31	Remove PPAC revenues	(85,442)		(85,442)	(85,442)	
32	Remove PPAC accrual	62,700		62,700	62,700	
33	Remove DSM revenues	(1,053)		(1,053)	(950)	
34	Remove RBA accruals	(237,500)		(237,500)	(237,500)	Attachment 4
35	Remove revenue taxes on unbilled revenues	(84,852)		(84,852)	(76,641)	Attachment 2
36	Remove base fuel (adjusted for revenue taxes)	(1,025,513)		(1,025,513)	(926,270)	
37	Remove power purchase energy (adjusted for revenue taxes)	(157,975)		(157,975)	(142,687)	
38 =						
sum 18-37	Total billed and unbilled adjustments to determine adjusted revenues for RBA	(26,663,198)	-	(26,663,198)	(24,108,073)	
39 =						
17+38	RECORDED ADJUSTED REVENUES FOR RBA DETERMINATION (PUC Monthly Financial Report pg. 9A.1)	9,532,277	-	9,532,277	8,609,800	

Note (1):
Amounts may not add or tie due to rounding.

² Prorated for May 4 -31, 2012, as considered necessary based on the nature of the adjustment.

Maui Electric Company, Ltd.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF RECORDED ADJUSTED REVENUES

Schedule B2

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF RECORDED ADJUSTED REVENUES

Attachment 2
Page 2 of 2

Base Fuel	Original Filing	Maui	Lanai	Molokai	Total
	Computation of Revenue for Base Fuel				
	kWh - Rev 510 report	81,817,018	1,498,013	2,296,997	85,612,028
	Less: Schedule H&K	(937,999)	(35,450)	(37,318)	(1,010,767)
	Subtotal	80,879,019	1,462,563	2,259,679	84,601,261
	cents per kWh rate from Pricing Division	0.119318823	0.199063678	0.163085372	
	Adjustment to Revenue	\$ 9,650,389	\$ 291,143	\$ 368,521	\$ 10,310,053
Revised Calculation					
	Computation of Revenue for Base Fuel				
	kWh - Rev 510 report	81,817,018	1,498,013	2,296,997	85,612,028
	Less: Schedule H&K				-
	Subtotal	81,817,018	1,498,013	2,296,997	85,612,028
	cents per kWh rate from Pricing Division	0.119318823	0.199063678	0.163085372	
	Adjustment to Revenue	\$ 9,762,310	\$ 298,200	\$ 374,607	\$ 10,435,117
				H&K difference	\$ 125,064
Purch Power	Original Filing	Maui	Lanai	Molokai	Total
	Computation of Revenue for Base Fuel				
	kWh - Rev 510 report	81,817,018	1,498,013	2,296,997	85,612,028
	Less: Schedule H&K	(937,999)	(35,450)	(37,318)	(1,010,767)
	Subtotal	80,879,019	1,462,563	2,259,679	84,601,261
	cents per kWh rate from Pricing Division	0.020632435	0.009980163	-	
	Adjustment to Revenue	\$ 1,668,731	\$ 14,597	\$ -	\$ 1,683,328
Revised Calculation					
	Computation of Revenue for Base Fuel				
	kWh - Rev 510 report	81,817,018	1,498,013	2,296,997	85,612,028
	Less: Schedule H&K				-
	Subtotal	81,817,018	1,498,013	2,296,997	85,612,028
	cents per kWh rate from Pricing Division	0.020632435	0.009980163	-	
	Adjustment to Revenue	\$ 1,688,084	\$ 14,950	\$ -	\$ 1,703,035
				H&K difference	\$ 19,707

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **DIVISION OF CONSUMER ADVOCACY'S STATEMENT OF POSITION** was duly served upon the following parties, by personal service, hand delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR § 6-61-21(d).

DEAN K. MATSUURA
MANAGER, REGULATORY AFFAIRS
Hawaiian Electric Company, Inc.
P.O. Box 2750
Honolulu, Hawaii 96840

1 copy
by hand delivery

DATED: Honolulu, Hawaii, May 6, 2013.

K. Z. L. M.