

ORIGINAL

DIVISION OF CONSUMER ADVOCACY
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PUBLIC UTILITIES
COMMISSION

2013 MAY -6 P 3 59

FILED

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)	
)	
HAWAIIAN ELECTRIC COMPANY, INC.)	Transmittal No. 13-03
)	(Decoupling)
For approval to modify the RBA Rate)	
Adjustment in its Revenue Balancing)	Effective Date: June 1, 2013
Account Provision Tariff.)	

DIVISION OF CONSUMER ADVOCACY'S
STATEMENT OF POSITION

Pursuant to § 6-61-62 of the Hawaii Public Utilities Commission's ("Commission") Rules of Practice and Procedure 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 upon the review that it has been able to conduct thus far of the decoupling rate adjustment filing of Hawaiian Electric Company, Inc. ("HECO" or "Company"). In its tariff transmittal, HECO seeks to implement an adjustment of \$0.013223 per kWh for the June 1, 2013 through May 31, 2014 recovery period. Based on the Consumer Advocate's review to date, as set forth in the Discussion section below, the Consumer Advocate believes that certain adjustments

are necessary to the Company's proposed RBA Rate Adjustment, as summarized in Attachment 1, and is continuing to review the filing and the overall decoupling process. The Consumer Advocate proposes a lower RBA rate of \$0.013083 per kWh after including the effects of each of the CA Adjustments listed on page 1 of Attachment 1 that are applied within the referenced Schedules therein.

I. BACKGROUND.

The Company's instant filing is HECO's third iteration of RBA rate adjustment and the filing is substantively consistent with the Decision and Order in Docket No. 2008-0274, which approved the jointly proposed decoupling mechanism offered by the HECO Companies¹ and the Consumer Advocate.

HECO's first decoupling filing was set forth in the application filed as Transmittal No. 11-02 on March 31, 2011. This initial filing was triggered by the Commission's inclusion of an adjustment to the authorized return on equity that reflected the impact of decoupling in Docket No. 2008-0083.² In its Order Approving HECO's Tariff Filed on May 10, 2011, As Revised on May 26, 2011, the Commission authorized the implementation of the decoupling adjustment.

HECO's second decoupling filing was submitted on March 30, 2012, in Transmittal No. 12-02, seeking to reflect an RBA Rate Adjustment of \$0.004003 for the June 1, 2012 through May 31, 2013 recovery period, including a Rate Adjustment

¹ The HECO Companies refer to HECO, Hawaii Electric Light Company, Inc., and Maui Electric Company, Limited.

² As set forth in the 2008-0274 Decision and Order, HECO could implement its decoupling provision only after the Commission authorized rates that reflected a reduced rate of return due to decoupling.

Mechanism ("RAM") revenue increase for the 2012 RAM period. The Consumer Advocate filed its SOP on this transmittal recommending certain adjustments to major project costs reflected within the proposed RAM increase. On May 23, 2012, the Company filed a revised RBA adjustment tariff to recognize adjustments associated with major capital project costs, resulting in a decrease in the RBA rate adjustment to \$0.003894 per kWh, which rate was made effective on June 1, 2012. On December 14, 2012, further revisions were submitted by HECO in reference to Transmittal No. 12-02 to decrease target revenues to correct certain labor cost escalation calculations and to remove costs associated with HEI non-executive compensation costs from RAM calculations.³

On March 28, 2013, HECO filed the instant application representing the third round of decoupling rate adjustment and seeking Commission approval to revise the Revenue Balancing Account ("RBA") rate adjustment clause to recover \$0.013223 per kWh.⁴ 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 HECO in support of its filing. The need for

³ See HECO letter dated December 14, 2012, in Transmittal No. 12-02, in which the Company advised the Commission of its lowering of target revenues to account for non-compounded labor cost escalations and to reflect a downward revision in the Docket No. 2010-0080 revenue requirement to exclude HEI non-incentive executive compensation costs in compliance with Order No. 30576 issued on August 9, 2012 in that Docket.

⁴ 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, 2013. 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.

several adjustments to the Company's filing was revealed by this effort, as more fully described in the Discussion Section of this document.

II. DISCUSSION.

The majority of the Company's proposed RBA Rate Adjustment is driven by the accumulated Revenue Balancing Account ("RBA") balance, which arises from shortfalls in recorded, adjusted revenues in comparison to HECO's targeted levels of Commission-approved base revenues. As of December 31, 2012, the accumulated RBA balance to be recovered represents a cumulative revenue shortfall of \$50.5 million. In addition to RBA balance recovery, for the 2013 RAM period HECO has proposed a \$39.6 million increase in its annual revenue requirement, driven by calculated increases in its O&M RAM, the Rate Base RAM – Return on Investment RAM and the Depreciation & Amortization Expense RAM.⁵

A. REVIEW OF THE REVENUE BALANCING ACCOUNT ACTIVITY.

HECO has now adopted extensive reporting and internal review requirements to ensure that entries made to its Revenue Balancing Account ("RBA") are accurate and complete. Detailed monthly workpaper "Packets" are prepared in support of the RBA entries that are recorded each month by HECO, 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

⁵ See HECO 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.

prescribed information requests that highlight any changes in procedures, billing errors or corrections 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 appear to have improved the accuracy of RBA accounting in 2012, relative to performance in the initial months of RBA accounting during 2011 when large correcting adjustments were identified.⁶ The Consumer Advocate is continuing to review the RBA calculations within the Company's filing, but has observed significant improvement in HECO's internal control procedures and has identified only a single small RBA balance adjustment that should be made as of December 31, 2012, as described below.

1. Billing Adjustment Reversals.

The City and County of Honolulu receives ongoing quarterly billing adjustments in connection with a program of lighting replacements that produces certain energy efficiencies not otherwise reflected in HECO's rates. These quarterly adjustments appear at Schedule B2, line 5 of the Company's filing with the caption "C&C unmetered

⁶ In its previous decoupling transmittal, HECO's Schedule B and supporting workpapers HECO-WP-B-001 through HECO-WP-B-007 reflected a series of adjustments that were required to correct the recorded revenues for 2011 that totaled \$10,980,407 and further corrections were identified in connection with the Consumer Advocate's analysis of the RBA balance in that transmittal.

revenues." These amounts are properly reversed at line 27 of Schedule B2 in all months except December of 2012. In response to an informal Consumer Advocate inquiry, the Company stated, "There was an oversight and the adjustment for \$11,758 was not added back in December. We caught this during our review of the annual filing in March 2013, and will be adjusting for this during the March 2013 close." It is appropriate to correct for this known oversight in determination of the December 2012 RBA balance, so as to not overstate the amount included in the calculated RBA rate for recovery commencing in June of 2013. The first CA Adjustment appearing on page one of Attachment 1 is to correct for the C&C revenue add-back needed in December of 2012.

2. Other RBA Balance Corrections.

The Company has advised the Consumer Advocate that several additional billing adjustments have been identified and recorded in the months of February and March of 2013 that require revisions to billed consumption charges for usage of energy within certain months within 2012. By recording these billing adjustments to the RBA balance entirely within the month the corrections are identified, along with applicable interest, the effects of these changes will remain subject to reconciliation of 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.

3. 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 25 for HELCO, it is necessary to remove Energy Cost Adjustment Clause ("ECAC"), Purchased Power Adjustment Clause ("PPAC"), Demand Side Management ("DSM") and Public Benefit 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.

On January 29, 2013, HECO 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.

B. REVIEW OF RAM REVENUE ADJUSTMENTS.

HECO's proposed RAM Revenue Adjustment amount is comprised of the O&M RAM, Rate Base RAM, and the Depreciation and Amortization RAM, which are in the amounts of \$7,615,328, \$19,446,563 and \$11,535,836, respectively for the 2013 period. The Rate Base RAM and Depreciation & Amortization RAM amounts are significantly increased in this 2013 RAM filing because of inclusion of the full costs associated with rate base treatment of the Company's Campbell Industrial

Park - Combustion Turbine No. 1 ("CIP-CT1"),⁷ as well as costs for 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. 2008-0083.⁸

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 with the Stipulated Settlement 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 Consumer Advocate adjustment is proposed and quantified in Attachment 1, so as 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 target revenues in the future when and if additional corrections or modifications are determined to be appropriate.

⁷ In previous rate cases and RBA Rate adjustment calculations, the recoverable cost of the CIP-CT1 generation facility was limited to previously approved levels in General Order 7 proceedings, rather than the higher actual costs of completed construction.

⁸ The Stipulated Settlement is described in detail in the Company's Transmittal at pages 6-9 and in the Commission's Order No. 31126 in Docket No. 2010-0080.

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 19, 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.

HECO 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 HECO-WP-D4-001, where it can be observed that HECO has included a new element of ADIT that is captioned "NOL" on page 2 of that workpaper. "NOL" stands for Net Operating Loss and HECO has not previously recorded an NOL tax asset or sought inclusion of such amounts in utility rate base. HECO'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 HECO'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.⁹

⁹ 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.

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 HECO'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 HECO-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 HECO, anticipates generating taxable income sufficient to absorb 2013 federal tax losses generated by HECO." 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 HECO'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 HECO-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 [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 HECO-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.¹⁰ 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.

¹⁰ 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.

For all of these reasons, the Consumer Advocate has removed the Federal DTA balance included in HECO's asserted rate base. It is the Consumer Advocate's understanding that HECO does not contest the removal of its NOL Deferred Tax Asset from the calculation of Rate Base RAM.¹¹

2. Deferred Regulatory Asset Balances in Rate Base.

The Rate Base RAM calculation includes balances for two regulatory assets – "CIP CT-1 Reg Asset" and "CIS Def Cost" at lines 7 and 8, respectively, of HECO Schedule D1. As discussed at pages 6-9 of HECO's Transmittal No. 13-03 submitted on March 28, 2013, the Stipulated Settlement Agreement¹² allowed HECO to include in the Rate Base RAM unamortized regulatory assets for CIP CT-1 and CIS related to carrying charges and deferred depreciation. Such regulatory assets would be excluded from the Rate Base RAM, absent such an agreement.

In determining the average regulatory asset balances included in rate base, the Company employed a beginning balance of the two point average as the balance at May 31, 2013. The only difference identified by the Consumer Advocate with respect to the inclusion of these regulatory assets in the Rate Base RAM component relates to the Company's use of the regulatory asset values at May 2013¹³ rather than

¹¹ At Informal HECO-CA-IR-1, part c, Revised, the Company stated, "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."

¹² 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.

¹³ Per HECO Schedule D1, the Company has proposed beginning balances at May 31, 2013, in the amounts of \$5,726,000 for the CIP CT-1 Reg Asset and \$14,637,000 for the CIS Def Cost.

December 2012. Referring to Schedule D1, column (d) at lines 7 and 8, the Consumer Advocate recommends that the beginning balance for these regulatory assets are more properly stated as of December 31, 2012 in the amounts of \$4,446,000 (CIP CT-1 Reg Asset) and \$14,232,000 (CIS Def Cost), as documented at HECO-WP-D1-001A and HECO-WP-D1-001B, respectively.

At page 93f 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 valuations for the CIP CT-1 and CIS regulatory assets, as shown by the following language:

The recorded plant in service amount for CIP CT-1 and the related accumulated depreciation, accumulated deferred income taxes and unamortized state investment tax credits and regulatory assets related to depreciation and carrying charges estimated through the effective date of the Revenue Balancing Account ("RBA") Rate Adjustment (that includes the Rate Adjustment Mechanism ("RAM") Revenue Adjustment for these items) shall be included in the beginning and ending balance of Hawaiian Electric's rate base for the RAM Revenue Adjustment for 2013 and subsequent years thereafter, and for subsequent Hawaiian Electric rate cases. See Exhibit 3.

Hawaiian Electric will amortize the regulatory assets, directly resulting from the deferral of depreciation and the accrual of carrying charges, over six years, beginning on the effective date of the 2013 RAM Revenue Adjustment, and to include such amortization in the 2013 RAM Revenue Adjustment.

[Stipulated Settlement Agreement, Exhibit 1, page 1]

...

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 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 \$842,000 to recognize the beginning balances for these regulatory assets at December 2012.

C. EARNINGS SHARING REVENUE CREDITS.

The RBA Rate Adjustment proposed by HECO on Schedule A includes at line 8 a reduction for "Earnings Sharing Revenue Credits" that are based upon calculations set forth at Schedule H. This is the first decoupling transmittal in which HECO earnings

are high enough to trigger the form of credits that are specified in the "Evaluation Period Earnings Sharing" section of the RAM tariff. HECO'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 HECO-WP-H001. 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, HECO has calculated a "Return on Equity for Decoupling Sharing" of 10.56%, which is above the Commission-authorized return on equity of 10.0% and therefore triggers sharing of excess earnings. The Consumer Advocate has reviewed the Company's calculations on Schedule H and proposes two adjustments that have the effect of increasing the "Return on Equity required amount of Earnings Sharing Revenue Credits used to calculate the RBA Rate Adjustment.

1. Elimination of Earnings Sharing Accruals in Calculating Earnings.

The RAM tariff specifies that in calculating "Evaluation Period Earnings Sharing" the schedules will include "Pro-forma adjustments to remove from recorded revenues any out-of-period Earnings Sharing Revenue Credits or Major Capital Projects Credit that should be recorded during the Evaluation Period." In December of 2012, HECO recorded an accrual for "Earnings Sharing Mechanism Refund Accrual" that appears at line 11 of Schedule B2 and that reduced revenues recorded on HECO's books in 2012. This negative revenue accrual entry should have been eliminated in calculating the

achieved 2012 return on equity on Schedule H. Failure to remove this earnings sharing accrual creates a circular calculation in which the earnings amount used to calculate earnings sharing has already been reduced for an estimate of such sharing.

In response to Informal HECO-CA-10, the Company acknowledged that "The recorded refund accrual of \$2.1 million is reflected within the \$119,924 million of Operating Income at Schedule H line 1. The refund accrual should have been excluded from Operating Income. See Attachment 1 of this response for the revised Schedule H, which excludes the impact of the refund to the Operating Income."

2. Rate Base Working Cash Allowance.

In calculating the 2012 "Earnings Sharing Revenue Credits" on Schedule H, HECO used a Rate Base value of \$1,531,776,000. As supported by HECO-WP-H-001, this rate base amount includes average Working Cash (or cash working capital) of \$28,998,000. In the settlement of the Company's 2011 test year rate case, the amount of Working Cash included in rate base and fixed for Rate Base RAM purposes was \$21,054,000. See Schedule D1, line 25.

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 93f 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 HECO-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.

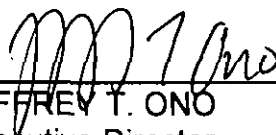
The fifth CA Adjustment appearing on page one of Attachment 1 reduces average rate base used on Schedule H for earnings sharing purposes by about \$7.9 million to fix Working Cash at the amount last approved by the Commission in Docket No. 2010-0080 in the amount that is consistent with Schedule D1.

III. **CONCLUSIONS AND RECOMMENDATIONS.**

For the reasons set forth herein, the Consumer Advocate recommends that the calculated adjustment to revenues proposed by HECO in its Transmittal No. 13-03 should be modified as set forth 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

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

Line No.	Description (a)	Schedule Reference (b)	CA Adjustment Amount (c)	
1	Recorded Adjusted Revenues in December 2012 were revised to reflect the reversal of City/County billing adjustments at line 27. See HECO Response to CA Informal RBA Question #5.	B2, line 27	\$ 11,758	
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 HECO CA Informal RAM Question #1, Revised, HECO-WP-D4-001	D4, line 3	\$ (641,201)	
3	The RAM tariff requires pro-forma adjustment to remove from recorded revenues any out-of-period Earnings Sharing Revenue Credits. In 2012 HECO earnings reflected an accrual for Earnings Sharing Revenue Credits to be refunded to customers in 2013 and this accrual was not eliminated as required in Schedule H calculations. See HECO Response to CA Informal RAM Question #10.	H, line 2e	\$ 1,156,427	
4	The Schedule D1 beginning Rate Base amounts for CIP CT-1 Reg Asset and CIS Def Cost were restated to December 2012 actual balances, consistent with the other components of rate base.	D1, line 7 D1, line 8	\$ (640,000) \$ (202,500)	CIP CT-1 CIS Def Cost
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 HECO_WP-H-001 Rate Base at "RB Worksheet" versus Sch D1.	H, line 2f	\$ (7,944,000)	

This Attachment 1 presents only Schedule A to summarize the CA-proposed revised RBA Rate and the supporting Schedules that are changed as a direct result of Consumer Advocate adjustments. The input cell for each Consumer Advocate adjustment is shaded and first appears on the Schedule that is referenced in column (b), above.

HAWAIIAN ELECTRIC COMPANY, INC.
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	\$ 50,477,310	
2	Revenue Tax Factor	Schedule C	1.0975	
3	Revenue for RBA Balance			\$ 55,398,848
<u>RATE ADJUSTMENT MECHANISM "RAM" AMOUNT:</u>				
4	O&M RAM	Schedule C	\$ 7,615,328	
5	Rate Base RAM - Return on Investment	Schedule D	\$ 19,255,394	
6	Depreciation & Amortization RAM Expense	Schedule E	\$ 11,535,836	
7	Total RAM Revenue Adjustment			\$ 38,406,558
8	<u>EARNINGS SHARING REVENUE CREDITS - 2012 ROE:</u>	Schedule H		\$ (2,833,244)
9	<u>PUC-ORDERED MAJOR OR BASELINE CAPITAL PROJECTS CREDITS:</u>	Schedule I		
10	TOTAL RBA REVENUE ADJUSTMENT	Sum Col. (d)		\$ 90,972,162
11	GWH SALES VOLUME ESTIMATE JUNE 2013 - MAY 2014 (see HECO-WP-A-001)			6,953.300
12	RBA RATE ADJUSTMENT - cents per kWh	Note (1)		1.3083
13	MONTHLY BILL IMPACT @ 600 KWH			\$7.85

Note (1): 2013 RBA Rate Adjustment Breakdown

	Col. (d)	Rate Adjustment cents per kWh	Percentage Share
RBA Balance	\$ 55,398,848	0.79672743	60.90%
RAM Amount	\$ 38,406,558	0.55235007	42.22%
Earnings Sharing Revenue Credits	\$ (2,833,244)	-0.04074675	-3.11%
Major or Baseline Capital Projects Credits	\$ -	0.00000000	0.00%
	\$ 90,972,162	1.30833075	100.00%

HAWAIIAN ELECTRIC COMPANY, INC.
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 for prior year RBA accrual	Adjustment	Ending Balance
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Monthly RBA Balance and Activity (Monthly PUC Rpt., Pg. 9A)									
1	December	\$ 29,532,584	\$ 41,937,817	\$ 39,961,425	\$ 1,976,392	\$ 98,468	\$ -	\$ (10,827,150)	\$ 20,780,294
2	March 2012 Adjustment - Note (2)								\$ (115,640)
3	March 2012 Adjustment - Note (3)								\$ (210,022)
4	May 2012 Adjustment - Note (4)								\$ (4,968)
5	REVISED 2011 December								\$ 20,448,664
6									
7	2012 January	\$ 20,780,294	\$ 41,125,462	\$ 39,527,599	\$ 1,597,863	\$ 107,896	\$ -		\$ 22,486,053
8	February	\$ 22,486,053	\$ 36,860,599	\$ 37,356,068	\$ (495,469)	\$ 111,192	\$ -		\$ 22,101,776
9	March	\$ 22,101,776	\$ 41,125,462	\$ 38,621,842	\$ 2,503,620	\$ 114,933	\$ -	\$ (366,942)	\$ 24,353,387
10	April	\$ 24,353,387	\$ 40,152,722	\$ 38,384,038	\$ 1,768,684	\$ 126,189	\$ -		\$ 26,248,259
11	May	\$ 26,248,259	\$ 43,255,064	\$ 41,640,204	\$ 1,614,860	\$ 135,253	\$ -	\$ (5,069)	\$ 27,993,304
12	June	\$ 27,993,304	\$ 43,980,356	\$ 37,944,203	\$ 6,036,153	\$ 151,192	\$ (1,546,140)		\$ 32,634,508
13	July	\$ 32,634,508	\$ 45,538,102	\$ 40,909,646	\$ 4,628,456	\$ 170,716	\$ (1,811,187)		\$ 35,822,493
14	August	\$ 35,822,493	\$ 46,940,073	\$ 41,328,298	\$ 5,611,775	\$ 188,942	\$ (1,679,771)		\$ 39,943,439
15	September	\$ 39,943,439	\$ 45,011,146	\$ 39,445,423	\$ 5,565,723	\$ 208,092	\$ (1,569,477)	\$ (323,209)	\$ 43,824,568
16	October	\$ 43,824,568	\$ 45,529,707	\$ 41,324,162	\$ 4,205,545	\$ 225,487	\$ (1,659,897)		\$ 46,595,703
17	November	\$ 46,595,703	\$ 42,833,187	\$ 38,638,624	\$ 4,194,563	\$ 239,615	\$ (1,540,056)		\$ 49,489,825
18	December	\$ 49,489,825	\$ 42,830,375	\$ 40,489,827	\$ 2,340,548	\$ 249,267	\$ (1,591,381)	\$ (10,949)	\$ 50,477,310
19									
20	2013 January	\$ -	\$ 42,000,731	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	February	\$ -	\$ 37,645,099	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
22	March	\$ -	\$ 42,000,731	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
23	April	\$ -	\$ 40,652,559	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	May	\$ -	\$ 43,763,724	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25	June	\$ -	\$ 46,104,825	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26	July	\$ -	\$ 47,737,818	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
27	August	\$ -	\$ 49,207,511	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
28	September	\$ -	\$ 47,247,920	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
29	October	\$ -	\$ 47,792,251	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30	November	\$ -	\$ 44,961,731	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
31	December	\$ -	\$ 44,961,731	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Sources of Data: Sch. B1 Note 6 Sch B2 Cols (c)-(d) Note 5 Note 1 Cols (b)+(e)+(f)+(g)

Note (1): Adjustment Summary:

Month	Workpaper Reference	RBA True-up Adjustment Sch B2, Line 24	RBA Interest Adjustments	Total Adjustment	Adjustment Description
2012 March	HECO-WP-B-001	(111,182)	(4,458)	(115,640)	Adj for misc customer billing adjustments
2012 March	HECO-WP-B-002	(208,654)	(1,368)	(210,022)	Adj for TY2011 over-collection
2012 March	HECO-WP-B-002A	(36,974)	(4,306)	(41,280)	Adj for misc customer billing adjustments
2012 May	HECO-WP-B-002	(5,097)	28	(5,069)	Adj to correct TY2009 refund
2012 September	HECO-WP-B-003	(200,435)	(18,281)	(218,716)	Adj. Mar 11 - for incorrect inclusion of 07/09 interim increase
2012 September	HECO-WP-B-004	(98,179)	(6,314)	(104,493)	Adj. Aug 11 for Navy overbilling and factor adjustment
2012 December	HECO-WP-B-005	(14,636)	(199)	(14,835)	Adj. 6/12 - 11/12 target revenues.
2012 December	HECO-WP-B-006	3,658	228	3,886	Adj. for misc customer billing adjustments.

Note (2):

In March 2012, the Company recorded an adjustment to the RBA related to miscellaneous customer billing adjustments that were processed in March 2011 to December 2011, some of which were related to revenues recorded prior to March 2011 (the implementation of decoupling.) The Company recalculated the RBA as of December 31, 2011, including interest, based on reflecting the billing adjustments in the proper month incurred. See HECO-WP-B-001.

Note (3):

In March 2012, the Company recorded an adjustment to the RBA related to the exclusion of the refund for the 2011 test year rate case that were recorded in November 2011 and December 2011. The Company recalculated the RBA as of December 31, 2011, including interest based on reflecting the refund adjustments in the proper month incurred. See HECO-WP-B-002.

Note (4):

In May 2012, the Company recorded an adjustment to the RBA related to the exclusion of the refund for the 2009 test year rate case that were recorded March 2011 to December 2011. The Company recalculated the RBA as of December 31, 2011, including interest based on reflecting the refund adjustments in the proper month incurred. See HECO-WP-B-002. The amount differs from the actual adjustment made in May 2012 due to additional interest recognized in 2012.

Note (5):

Amounts represent recovery of prior year's RBA balance through the RBA rate adjustment effective June 1, 2012. See HECO-WP-B-007.

Note (6):

In December 2012, the Company revised its monthly target revenues by decreasing its annualized 2012 Revenue Adjustment Mechanism (RAM), effective June 1, 2012, due to a correction to the O&M labor cost escalation rate used in the original O&M RAM calculation, and effective September 1, 2012, due to a reduction in the O&M base as a result of the final decision and implementation of final rates in the 2011 test year rate case. See HECO's Transmittal No. 12-02 (Decoupling), filed on December 14, 2012. Schedule B reflects the monthly target revenues in place prior to the revision, while Schedule B1 reflects the revised monthly target revenues. Refer to HECO-WP-B-005 for the original and revised monthly target revenues, and the calculation of the difference of (14,636) for June - November 2012, which was booked as an adjustment to the RBA balance, along with interest, in December 2012.

HAWAIIAN ELECTRIC COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF RECORDED ADJUSTED REVENUES

Line No.	Description	January 2012	February 2012	March 2012	April 2012	May 2012	June 2012	July 2012	August 2012	September 2012	October 2012	November 2012	December 2012
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
BILLED REVENUES:													
1	Current month's billed revenues	190,802,114	171,150,838	172,332,195	169,803,830	171,246,076	183,588,501	182,028,809	224,021,863	196,386,699	188,536,622	185,507,718	166,425,341
2	Remove non-electric revenues adjustments	(36,753)	(28,465)	(4,954)	(20,494)	(522)	(2,248,336)	-	-	-	-	-	-
3	Remove PBF revenues	(2,257,777)	(2,221,448)	(2,248,994)	(2,187,660)	(2,118,439)	(2,248,336)	(2,200,948)	(2,606,341)	(2,419,755)	(2,360,654)	(2,372,769)	(2,210,768)
4	Division revenues	31,110	2,347	160,620	1,342	2,302	-	-	-	-	-	-	-
5	C&C unretained revenues	-	-	(11,734)	(1,300)	(12,392)	(12,392)	-	-	(12,433)	-	-	(11,728)
6	2011 TY overcollected	-	-	(120,200)	(1,300)	134,449	233,062	(12,900)	(68,300)	878,564	-	-	(132,865)
7	Solar Saver (Journal entry)	-	-	-	61,824	76,696	30	-	-	-	-	-	(14)
8	Other adjustments	-	-	-	-	-	-	-	-	-	-	-	-
9 =													
sum 1-8		168,338,694	168,903,272	170,106,833	167,717,534	166,340,542	180,785,865	179,814,836	221,940,661	194,747,660	186,175,968	183,134,949	164,086,816
UNBILLED REVENUES													
9	Current month's unbilled revenues (Unbilled Sales and Revenue Est)	90,716,009	84,374,519	87,205,710	89,494,101	112,220,667	117,632,504	131,613,473	107,006,688	95,062,409	100,466,283	87,104,526	94,262,462
10	Revenue prior month's unbilled revenues (Unbilled Sales and Revenue Est)	(100,555,671)	(90,716,010)	(84,374,519)	(87,205,710)	(89,494,101)	(112,220,667)	(117,632,504)	(131,613,473)	(107,006,688)	(95,062,409)	(87,104,526)	(94,262,462)
11 =													
sum 9-10		(9,839,662)	(6,341,491)	2,831,191	2,288,391	22,726,566	5,411,837	13,980,969	(23,706,785)	(12,844,279)	5,403,874	(13,361,757)	7,157,936
11	Earnings Sharing Mechanism Refund Accrual	(52,807)	(52,807)	(52,807)	(52,807)	(52,807)	(52,807)	(52,807)	(52,807)	(52,807)	(52,807)	(52,807)	(52,807)
12	Accrual of monthly ECAC adjustment	2,463,000	2,463,000	2,463,000	2,463,000	2,463,000	2,463,000	2,463,000	2,463,000	2,463,000	2,463,000	2,463,000	2,463,000
13	Reversal of 1/3 ECAC	(2,619,966)	(2,619,966)	(2,619,966)	(2,619,966)	(2,619,966)	(2,619,966)	(2,619,966)	(2,619,966)	(2,619,966)	(2,619,966)	(2,619,966)	(2,619,966)
14	Reversal of 1/3 PPAC	(283,933)	(283,933)	(283,933)	(283,933)	(283,933)	(283,933)	(283,933)	(283,933)	(283,933)	(283,933)	(283,933)	(283,933)
15	Accrual of monthly PPAC adjustment	1,011,200	1,011,200	1,011,200	1,011,200	1,011,200	1,011,200	1,011,200	1,011,200	1,011,200	1,011,200	1,011,200	1,011,200
16	Adjust prior month RBA	1,652,000	1,652,000	1,652,000	1,652,000	1,652,000	1,652,000	1,652,000	1,652,000	1,652,000	1,652,000	1,652,000	1,652,000
17	Recovery of 12-31-11 RBA balance through RBA Rate Adjustment beginning 6-1-12	-	-	-	-	-	-	-	-	-	-	-	-
18	Gross up revenues for RBA revenue taxes	-	-	-	-	-	-	-	-	-	-	-	-
19	Accrual of current month's RBA (PUC Monthly Financial Report pg. 9A)	1,597,863	(485,469)	2,503,620	1,766,684	1,614,860	6,036,153	5,811,775	5,428,456	5,565,723	4,205,545	4,194,563	2,351,261
20 =													
sum 11-19	Miscellaneous unbilled accruals	(1,358,943)	8,636,658	8,093,445	8,557,716	235,331	9,366,952	1,700,897	(1,315,149)	3,781,642	(510,776)	6,590,933	4,110,579
21 =													
sum 20-21		(1,358,943)	8,636,658	8,093,445	8,557,716	235,331	9,366,952	1,700,897	(1,315,149)	3,781,642	(510,776)	6,590,933	4,110,579
22 =													
sum 21-22		(1,358,943)	8,636,658	8,093,445	8,557,716	235,331	9,366,952	1,700,897	(1,315,149)	3,781,642	(510,776)	6,590,933	4,110,579
UNBILLED REVENUES													
23	Remove ECAC revenues	(75,345,881)	(62,464,491)	(63,232,263)	(63,206,556)	(65,685,162)	(73,832,163)	(71,552,298)	(88,375,582)	(60,842,369)	(42,374,920)	(38,782,818)	(30,239,590)
24	ECAC surcharge adjustment	26,679,377	25,354,449	25,640,771	24,900,213	24,370,797	25,427,802	24,765,209	31,598,550	(16,121,136)	(15,749,884)	(14,975,317)	(13,136,061)
25	Remove PPAC revenues	(14,856,005)	(12,856,005)	(12,813,920)	(11,978,928)	(12,318,695)	(13,816,530)	(15,586,615)	(17,457,363)	(617,897)	(602,652)	(605,452)	(558,248)
26	Remove DSM/PPS revenues	(330,060)	(312,802)	(315,801)	(421,245)	(536,759)	(562,063)	(546,270)	(706,771)	(12,433)	-	-	-
27	Add back C&C unretained revenue	11,734	-	11,734	-	-	12,392	-	-	-	-	-	-
28	TY 2011 refund	-	-	120,200	1,300	-	747,858	94,155	81,378	(486,130)	402,184	3,124	133,476
29	TY 2009/2007 refund	-	-	-	-	-	-	-	-	-	-	-	-
30	Remove revenue taxes of PBF revenues	(153,991)	(151,514)	(153,392)	(146,210)	(144,487)	(153,348)	(150,807)	(184,040)	(165,039)	(161,008)	(161,834)	(150,785)
31	Remove Solar Saver revenues	-	-	-	3,949	4,898	-	-	-	-	-	-	-
32	Remove revenue taxes on billed revenues	(11,120,846)	(10,526,274)	(10,649,940)	(10,375,464)	(10,209,317)	(10,538,481)	(10,563,385)	(13,051,962)	(10,352,583)	(11,345,228)	(11,427,223)	(10,673,593)
33	Remove base fuel (adjusted for revenue taxes)	(52,077,079)	(49,123,403)	(49,677,359)	(48,242,574)	(47,216,864)	(47,981,013)	(47,981,013)	(53,895,696)	(52,597,450)	(52,819,459)	(48,848,268)	(48,848,268)
34	Remove power purchase energy (adjusted for revenue taxes)	(21,970,863)	(20,724,733)	(20,958,442)	(20,353,119)	(19,920,381)	(20,784,364)	(20,242,769)	(25,828,255)	(22,738,122)	(22,190,403)	(22,284,067)	(20,606,656)
35	Other adjustments	-	-	(36,189)	-	-	63,783	-	-	-	-	-	8,573
36	Unbilled Adjustments to Determine Adjusted Revenues for RBA	-	-	-	-	-	-	-	-	-	-	-	-
37	Remove ECAC revenues	8,571,465	3,144,680	(2,230,158)	(862,603)	(11,387,089)	(2,297,250)	(5,448,961)	11,615,440	19,825,588	(702,442)	5,587,566	635,487
38	ECAC surcharge adjustment	(297,855)	(670,399)	206,758	271,735	2,364,679	562,026	2,311,880	(3,363,713)	(2,777,336)	2,191,002	(2,204,300)	(4,035,700)
39	Remove PPAC revenues	2,619,966	(6,522,034)	(4,561,034)	(4,655,832)	2,009,432	(1,143,868)	2,277,336	4,524,099	(289,401)	(464,413)	1,520,370	(794,167)
40	Remove PPAC accrual	147,702	1,018,566	(93,215)	(104,788)	(2,135,180)	(288,803)	(1,066,062)	1,057,722	821,428	(464,413)	1,520,370	(794,167)
41	Remove DSM revenues	283,933	(2,663,200)	(1,438,500)	(2,133,200)	(635,000)	(623,000)	(545,100)	1,106,400	408,900	1,115,600	(1,473,333)	(1,330,533)
42	Remove DSM accrual	4,279	7,141	(2,188)	(134,467)	(53,727)	(16,193)	(53,964)	79,491	32,115	(15,658)	30,360	(34,313)
43	Remove Earnings Sharing Mechanism Accrual	52,907	-	-	-	-	-	-	-	-	-	-	-
44	Remove Solar Saver revenues	-	-	-	-	-	-	-	-	-	-	-	-
45	Adjust prior month RBA	-	-	-	-	-	-	-	-	-	-	-	-
46	Gross up revenues for RBA revenue taxes	-	-	-	-	-	-	-	-	-	-	-	-
47	Remove RBA accruals	(1,597,863)	495,469	(2,146,810)	(1,766,684)	(1,614,860)	(6,036,153)	(5,811,775)	(5,428,456)	(5,565,723)	(4,205,545)	(4,194,563)	(2,351,261)
48	Remove revenue taxes on unbilled revenues	125,640	(252,441)	(363,296)	(129,589)	(1,033,256)	(699,717)	(1,437,024)	(578,015)	(171,482)	(703,305)	(463,641)	(463,641)
49	Remove base fuel (adjusted for revenue taxes)	577,076	1,298,656	(400,581)	(526,469)	(4,581,415)	(1,127,638)	(4,749,120)	6,516,979	2,797,383	(1,443,492)	2,650,827	(3,005,368)
50	Remove power purchase energy (adjusted for revenue taxes)	243,463	547,975	(189,002)	(222,112)	(1,932,859)	(475,741)	(1,889,702)	2,749,456	1,180,191	(608,997)	1,118,361	(1,267,938)
51													
52 =													
sum 23-51	Total billed and unbilled adjustments to determine adjusted revenues for RBA	(137,612,490)	(133,842,571)	(142,409,727)	(140,179,603)	(150,662,235)	(157,622,451)	(154,587,156)	(155,580,429)	(146,239,600)	(149,744,904)	(137,725,501)	(134,848,604)
53 =													
22 + 52	RECORDED ADJUSTED REVENUES FOR RBA DETERMINATION	39,327,599	37,356,068	38,621,842	38,384,038	41,640,204	37,844,203	40,909,646	41,328,298	36,445,423	41,324,162	36,638,624	40,489,877
22 + 52	(PUC Monthly Financial Report pg. 9A.1)												

HAWAIIAN ELECTRIC COMPANY, INC.
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 (Note (2)):</u>						
2	Short-Term Debt	\$ 38,210	2.35%	1.75%	0.04%	1.000000	0.04%
3	Long-Term Debt	624,620	38.36%	5.86%	2.25%	1.000000	2.25%
4	Hybrid Securities	27,994	1.72%	7.36%	0.13%	1.000000	0.13%
5	Preferred Stock	20,806	1.28%	5.46%	0.07%	1.636929	0.11%
6	Common Equity	916,533	56.29%	10.00%	5.63%	1.636929	9.21%
7	Total Capitalization	<u>\$ 1,628,163</u>	<u>100.00%</u>		<u>8.11%</u>		<u>11.74%</u>
8	RAM CHANGE IN RATE BASE \$000 (From Schedule D1)						<u>\$ 149,444</u>
9	PRETAX RATE OF RETURN (Line 7, Col g)						<u>11.74%</u>
10	PRETAX RETURN REQUIREMENT						<u>\$ 17,544.8</u>
11	REVENUE TAX FACTOR (1/(1-8.885%))						<u>1.0975</u>
12	RATE BASE RAM - RETURN ON INVESTMENT \$000						<u>\$ 19,255.4</u>

Footnotes:

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

38.91%
1.636929121

2 See Decision and Order No. 30505, Page 127, filed June 29, 2012, in which the commission accepted the proposed capital structure set forth in the Parties' Stipulated Settlement Letter, filed July 5, 2011, in Docket No. 2010-0080, Exhibit 1, Page 125 of 132.

HAWAIIAN ELECTRIC COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF RATE BASE RAM ADJUSTMENT - CHANGE IN RATE BASE
\$ in thousands

Line No.	Description (a)	HECO 2011 Test Year Rate Base (Note 2)		HECO 2013 RAM Rate Base		
		Beg. Balance 12/31/2010 (b)	Budgeted Balance 12/31/2011 (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	\$ 1,608,932	\$ 1,710,082	\$ 1,908,872	\$ 33,881	\$ 1,942,753
2	Property Held for Future Use	4,090	4,090	These Elements of Rate Base are Not Updated for RAM Purposes		
3	Fuel Inventory	93,229	93,229			
4	Materials & Supplies Inventories	18,229	18,229			
5	Unamort Net SFAS 109 Reg Asset	62,723	64,246			
6	Unamort EOTP Reg Asset	523	2,136			
7	CIP CT-1 Reg Asset			4,446	723	5,169
8	CIS Def Cost			14,232	(307)	13,925
9						
10						
11						
12	Unamort Sys Dev Costs	9,253	8,297	These Elements of Rate Base are Not Updated for RAM Purposes		
13	RO Pipeline Reg Asset	5,587	5,473			
14	Contrib in Excess of NPPC	-	19,411			
15	Total Additions	\$ 1,802,566	\$ 1,925,193	\$ 2,131,923	\$ 34,297	\$ 2,166,219
16	Unamortized CIAC	\$ (189,314)	\$ (206,279)	\$ (238,510)	\$ (13,717)	\$ (252,227)
17	Customer Advances	(1,879)	(1,855)	Not Updated		
18	Customer Deposits	(10,245)	(13,554)			
19	Accumulated Def Income Taxes	(213,833)	(271,014)	(320,765)	(19,668)	(340,432)
20	Unamortized State ITC (Gross)	(32,171)	(35,088)	Not Updated		
21	Unamortized Gain on Sale	(800)	(516)			
22	Pension Reg Liability	(3,996)	(2,522)			
23	OPEB Reg Liability	(6,376)	(8,749)			
24	Total Deductions	\$ (458,614)	\$ (539,577)	\$ (618,150)	\$ (33,384)	\$ (651,535)
25	Working Cash	21,054	21,054	21,054	Not Updated	21,054
26	Rate Base at Proposed Rates	\$ 1,365,006	\$ 1,406,670	\$ 1,534,826		\$ 1,535,738
27	Average Rate Base		\$ 1,385,838			\$ 1,535,282
28	Change in Rate Base					\$ 149,444

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HECO-WP-D1-001B, Page 1

29	Column (e) Projected Changes to Rate Base:	Reference	Amount \$000
30	Plant - Baseline Capital Project Additions	Schedule D2	131,249
31	Major Project Additions	Schedule D3	6,791
32	Accumulated Depreciation/Amortization Change	Schedule E	(104,160)
33	Net Plant	Sum: Lines 30-32	33,881
34	Accum. Deferred Income Taxes - Baseline and Major Capital Projects	Schedule F	(19,668)
35	Projected CIAC Additions - Baseline	Schedule G	(19,315)
36	Projected CIAC Additions - Major CIP	Schedule G2	(55)
37	Less: Amortization of CIAC	Schedule G	5,653
38	Total Change in CIAC in Rate Base	Sum: Lines 35-37	(13,717)

Footnotes:

1 Amounts are recorded, except for the following adjustments:

	Plant in Service	Acc. Depr.	CIAC Net	ADIT
[A] Unadjusted Balance	\$ 3,365,146	\$ (1,196,039)	\$ (238,510)	\$ (321,512)
[A] Add: Asset Retirement Obligation		\$ (47,975)		
[A] Reg Liab-Cost of Removal (net salvage)		\$ (203,569)		
Major Project Adjustments:	HECO-WP-D2-001	HECO-WP-E-001	HECO-WP-D4-002	
Waiau 8 Boiler Ctlis Upgrade	(1,048)	19		198
Waiau 8 Main Transformer Replace	(290)	7		55
Kahuku Wind Power	(7)	5		1
W7 Controls Upgrade	(108)			20
Tenant Improvement Allowance (Sch E)	(10,135)	2,866		
Total Adjustments	\$ (11,588)	\$ 2,897	\$ -	\$ 274
CIS & CIP Adjustments - ADIT	Sch D4, Footnote 1			\$ 473
Adjusted Balance	\$ 3,353,558	\$ (1,444,686)	\$ (238,510)	\$ (320,765)

2 See Hawaiian Electric Tariffs to Adjust Interim Rate Increase for ERP/EAM, filed April 20, 2012, in Docket No. 2010-0080, EXHIBIT 1, Page 3 of 17

[A] SOURCE: Hawaiian Electric Company, Inc. Monthly Financial Report - December 2012, filed February 19, 2013.

HAWAIIAN ELECTRIC COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF ADJUSTED RECORDED DEFERRED INCOME TAXES

Line No.	NARUC Account (a)	Reference (b)	DR/(CR) Federal ADIT (c)	DR/(CR) State ADIT (d)	DR/(CR) Total ADIT (e)
1	Recorded Deferred Income Tax Balances December 31, 2012 Recorded Balances				
2	Depreciation Related Account 282	HECO-WP-D4-001	(153,374,424)	(7,881,925)	(161,256,349)
3	Other Deferred Income Taxes	HECO-WP-D4-001	(134,279,517)	(25,975,804)	(160,255,321)
4	Total Recorded Deferred Income Taxes		(287,653,941)	(33,857,729)	(321,511,670)
5	<u>Adjustments to Recorded Balances:</u>				
6	ADIT on Major Project excess depreciation	HECO-WP-D4-002	266,845	7,030	273,875
7	ADIT on CIP & CIS Adjustments	Footnote 1	400,286	73,195	473,481
8	Total Adjustments to Recorded ADIT Balances		667,131	80,225	747,356
9	Adjusted Recorded ADIT Balances -12/31/12		(286,986,810)	(33,777,504)	\$ (320,764,314)

FOOTNOTES:

1	<u>ADIT Computation:</u>	AFUDC Debt	32.8947% FED	6.0150% STATE	TOTAL
	ADIT on CIP CT-1 carrying charge (Jan - May 2013)	272,145	(89,521)	(16,370)	(105,891)
	ADIT on CIP CT-1 Reg Asset Reserve	(1,073,682)	353,184	64,582	417,766
	ADIT on CIS carrying charge (Jan - May 2013)	129,728	(42,674)	(7,803)	(50,477)
	ADIT on CIS Reg Asset Reserve	(545,064)	179,297	32,786	212,083
	Total	(1,216,873)	400,286	73,195	473,481

Adjustments from recorded to regulatory bases:

	AFUDC Equity	AFUDC Debt	TOTAL
A CIP CT-1 carrying charge (Jan - May 2013)	665,160	272,145	937,305
B CIP CT-1 Reg Asset Reserve	2,282,563	(1,073,682)	1,208,881
C CIS carrying charge (Jan - May 2013)	274,828	129,728	404,556
D CIS Reg Asset Reserve	1,289,943	(545,064)	744,879
Total	4,512,494	(1,216,873)	3,295,621

(E)

SOURCE:

- A, B See HECO-WP-D1-001A, page 2
 C See HECO-WP-D1-001B, page 4
 D See HECO-WP-D1-001B, page 5

NOTES:

- A, C 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.
 B, D Differential between regular AFUDC debt incurred (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.

	CIP CT-1	CIS
AFUDC Debt - full debt	2,072,087	1,085,139
AFUDC Debt	998,405	540,075
Base on which ADIT adjustment is calculated	1,073,682	545,064

- E 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.

HAWAIIAN ELECTRIC COMPANY, INC.
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 before ratemaking adjustment	Dec 2011 Mo. PUC rpt, pg 2A filed 2/21/12 & HECO-WP-H-001	\$ 119,924	\$ 1,531,776	
2	<u>Ratemaking Adjustments to Line 1:</u>	HECO-WP-H-001			
2a	Incentive Compensation Expenses (net of tax)	HECO-WP-H-002	3,782		
2b	Discretionary and Other Expenses Not Recoverable (net of tax)	HECO-WP-H-002	868		
2c	Amortization of investment income differential	HECO-WP-H-003	194		
2d	Income tax on items to be replaced by synchronized interest	HECO-WP-H-003	(14,210)		
2e	CA Adjustment to Remove Accrued Earnings Sharing Refund	See Sch. B2, line 11, col. (m) / tax factor	1,156		
2f	CA Adjustment to Restate Working Cash	Sch. D1 vs. HECO-WP-H-001		(7,944)	
3	Ratemaking Basis Amounts - Post Tax	Sum Lines 1 & 2	\$ 111,714	\$ 1,523,832	
4	<u>Ratemaking Capitalization</u>		Balances	Ratios	Cost Rate
5	Short-Term Debt (12 mo. Avg)		\$ 73,702	4.26%	0.52%
6	Long-Term Debt (Simple Avg)		\$ 676,936	39.10%	5.79%
7	Hybrid Securities (Simple Avg)		\$ 28,104	1.62%	7.33%
8	Preferred Stock (Simple Avg)		\$ 20,862	1.21%	5.44%
9	Common Equity (Simple Avg)		\$ 931,512	53.81%	10.00%
10	Total Capitalization	HECO-WP-H-004	\$ 1,731,115	100.00%	7.85%
11	Line 3 Rate Base Amount			\$ 1,523,832	
12	Weighted Cost of Debt			2.40%	
13	Synchronized Interest Expense			\$ 36,572	
	Income Tax Factor			1.636929121	
13a	Synchronized Interest Expense, net of tax			\$ 22,342	
14	Post Tax Income Available for Preferred & Common (Line 3 - Line 13a)				\$ 89,372
17	Less: Preferred Income Requirement (Line 8 Weighted Cost times Rate Base)				1,067
18	Income Available for Common Stock				\$ 88,306
19	Ratemaking Equity Investment (Line 9 Ratio times Rate Base)				819,972
20	Return on Equity for Decoupling Earnings Sharing				10.77%
21	<u>Earnings Sharing Revenue Credits:</u>	Basis Points			
22	Achieved ROE (basis points)	1,077			
23	Authorized Return (basis points)	1,000			
24	ROE for sharing (basis points)	77			
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)	77	0	0	
27	Ratepayer Share of Excess Earnings	25%	50%	90%	
28	Ratepayer Earnings Share - Basis Points	19	-	-	19
29	Revenue Credit per Basis Point (Note 2)				\$ 147
30	Earnings Sharing Revenue Credits (thousands)				\$ 2,833.24

Footnotes:

1	Composite Federal & State Income Tax Rate	38.91%
	Income Tax Factor (1 / 1-tax rate)	1.636929121
2	Ratemaking Equity Investment (line 19)	\$ 819,972
	Basis Point = 1/100 of a percent	0.01%
	Earnings Required per Basis Point (thousands)	\$ 82.00
	Times: Income Tax Conversion Factor	1.636929121
	Pretax Income Required per Basis Point (thousands)	\$ 134
	Times: Revenue Tax Conversion Factor	1.0975
	Revenue Requirement per Basis Point (thousands)	\$ 147

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.