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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

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PUBLIC UTILITIES
COMMISSION

In the Matter of the Application of)
)
HAWAIIAN ELECTRIC COMPANY, INC.)
)
For Approval to Modify the RBA Rate)
Adjustment in its Revenue Balancing Account)
Provision Tariff)
)
_____)

Transmittal No. 11-02

Effective
Date: June 1, 2011

DIVISION OF CONSUMER ADVOCACY'S
COMMENTS ON ATTACHMENT 5 TO HAWAIIAN ELECTRIC COMPANY, INC.'S
TRANSMITTAL NO. 11-02

ATTACHMENTS A, B, AND C

AND

CERTIFICATE OF SERVICE

JEFFREY T. ONO
DIVISION OF CONSUMER ADVOCACY
DEPARTMENT OF COMMERCE AND
CONSUMER AFFAIRS
335 Merchant Street, Room 326
Honolulu, Hawaii 96813
Telephone: (808) 586-2800
Facsimile: (808) 586-2780

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Pursuant to the understanding set forth in the discussion on April 18, 2011 and § 6-61-62 of the Commission's Rules of Practice and Procedure, the Division of Consumer Advocacy ("Consumer Advocate" or "Division") advises the Commission that, even though it has not completed its review of the initial decoupling rate adjustment filing by Hawaiian Electric Company, Inc. ("HECO"), the Consumer Advocate is submitting these comments on HECO's Attachment 5 to its Transmittal No. 11-02 filed on March 31, 2011 ("Attachment 5"), for the limited purpose of explaining its position with regard to advance accrual of Revenue Adjustment Mechanism ("RAM") revenue amounts in periods prior to June 1, 2011.¹ Based upon its limited review to date focused upon this single issue, the Consumer Advocate hereby provides the Commission with the following discussion of its concerns and recommendations with respect to the HECO's position that HECO is entitled to increased revenue under

¹ The balance of the Consumer Advocate's review of the Application will be filed in its Statement of Position and is anticipated to be submitted on or before April 29, 2011, which will also include the Consumer Advocate's responses to the comments filed by HECO on this accrual issue.

the RAM/RBA tariffs prior to June 1. With respect to this issue, the Consumer Advocate disputes HECO's assertion that, "The proposed tariff revision is in accordance with the Final Decoupling Order, the [*Final Decision and Order*] filed December 29, 2010 in Docket No. 2008-0083..."²

I. EXECUTIVE SUMMARY.

On March 31, 2011, HECO submitted its Application For Approval to Modify the RBA Rate Adjustment in its Revenue Balancing Account ("RBA") with a proposed effective date of June 1, 2011 ("Application"). According to HECO's Application, "the Company requests the Commission to allow the proposed RBA Rate Adjustment rate to be implemented on June 1, 2011. The RBA Rate Adjustment rate is based on the RAM Revenue Adjustment as determined by the Rate Adjustment mechanism Provision tariff, that was approved by the *Order Approving Revised Results of Operations, Supporting Schedules and Tariffs* ("Order Approving 2009 Final Rates"), issued on February 25, 2011 in the Hawaiian Electric 2009 test year rate case (Docket No. 2008-0083)." ³

The Consumer Advocate's review of HECO's Application and the voluminous supporting attachments is ongoing, but one particular issue of immediate importance to present and future administration of the decoupling procedure is raised by the HECO Application, specifically in Attachment 5, and is addressed in these comments submitted by the Consumer Advocate. That issue involves a determination of whether the decoupling mechanism, as agreed upon between HECO and the Consumer

² Application, page 3.

³ Application, page 1.

Advocate within the Joint Final Statement of Position ("JFSOP") that received Commission approval,⁴ provides for the accrual of RAM revenue increases for any months prior to the effective date specified in the RBA Tariff. The Consumer Advocate asserts that such "accrued revenues" are not contemplated by the JFSOP, the RBA Tariff or the Commission's Orders approving decoupling in Docket Nos. 2008-0274 and 2008-0083, as more fully explained herein. Any other issues arising from the Consumer Advocate's review of the Application will be presented later in the Consumer Advocate's separately submitted Statement of Position.⁵

II. HECO'S POSITION.

HECO's Application states, "The RAM Revenue Adjustment has been calculated to reflect a ten month period from March 1 through December 31, 2011. The beginning of the ten month period coincides with the March 1, 2011 effective date and implementation of the decoupling RBA Tariff approved by the Order Approving 2009 Final Rates. As stated in Section D (Sheet 92B) of its approved RBA Tariff, the Company will recover the RAM Revenue Adjustment through a per kwh RBA Rate Adjustment over the twelve months from June 1 of the current calendar year (i.e., 2011) to May 31 of the succeeding calendar year (i.e., 2012). In this transmittal, the Company

⁴ Commission approval for the Amended Joint Proposal, with certain specified modifications, was first received in *Final Decision and Order and Dissenting Opinion of Leslie H. Kondo, Commissioner* filed August 31, 2010, with implementation delayed until approval of final rates pursuant to the Commission's *Final Decision and Order* and Order Approving 2009 Final Rates in HECO's rate case, Docket No. 2008-0083.

⁵ The Commission required submission of a Statement of Position by the Consumer Advocate within 30 days of decoupling filing in its *Final Decision and Order and Dissenting Opinion of Leslie H. Kondo, Commissioner*, filed on August 31, 2010, in Docket No. 2008-0274, at page 45.

proposes an RBA Rate Adjustment of \$0.001694 per kwh to recover the RAM Revenue Adjustment. For financial reporting purposes, the Company will accrue the associated revenues from March 1, 2011 through December 31, 2011.”

In Attachment 2, page 1, HECO provides calculations supporting the proposed \$0.0001694 charge, inserting at Line 6 an “Adjustment for RAM Period March 1, 2011 - December 31, 2011 306 days / 365 days.” This daily prorate calculation has the effect of spreading the RAM revenue on a monthly basis over the calendar year 2011, as if HECO is entitled to collect only 83.84% of this amount from its customers through the Revenue Balancing Account (“RBA”).

In Attachment 5, page 4, HECO presents its view and proposed calculation for a different “Revised RBA Rate Adjustment” in cents per kwh of \$0.0000582 that would commence upon issuance of an Interim Rate Order in the pending HECO general rate case and continue thereafter. The apparent purpose of the lower rate increase calculated in Attachment 5 is to charge customers for an asserted amount of “Remaining Adjusted 2011 RAM to be Recovered July 2011 to May 2012” that would be additive to any interim rate change approved in pending Docket No. 2010-0080. According to Attachment 5, page 1, “The RAM Period is typically January 1 through December 31 of the year the RAM filing is made. In 2011, the beginning of the RAM period is March 1 instead of January 1 due to the March 1, 2011 effective date of the RBA and RAM tariffs... Thus, typically, the annual tariff filings in March of each year, including a test year, establish the target revenue for the entire calendar year and re-set the RBA rate adjustment to be effective June 1st.”⁶

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Footnote omitted.

The Consumer Advocate understands HECO's position to be that, through its calendar day prorate calculations set forth on Attachments 2 and 5, the Company is entitled to collect its asserted \$15,199,000 calendar year 2011 RAM revenue increase on a monthly pro-rata basis starting on March 1 of 2011. After the 2011 initial year of decoupling, HECO would assert an entitlement to any RAM revenue increase as of January 1 of the RAM year. The Consumer Advocate has a distinctly different understanding of the timing of HECO's actual entitlement to RAM revenue increases – that such RAM increases are chargeable to customers during a 12-month period commencing June 1 of each year, until such RAM amounts are superseded by an interim or permanent order in a general rate case.

The specific disputed elements of the Company's proposal include HECO's utilization of the following calculation periods and procedures, which are not in compliance with the approved RBA and RAM tariffs:

- Allocation of the RAM Revenue Adjustment over a 10 month period using a calendar days pro-ratio; yielding 83.84% on Attachment 2, page 1 and 33.42% on Attachment 5, page 4.
- Accrual of associated RAM Revenues from March 1, 2011 through December 31, 2011, as if HECO is entitled to a specific dollar amount of increased revenues on March 1, when the applicable tariffs approved in Docket No. 2008-0274 clearly provide for increased revenues on and after June 1.

- HECO's calculations supportive of the RBA Rate Adjustment of \$0.001694, which amount is understated because of the 83.34% prorate factor used on line 6 of Attachment 2, page 1.
- HECO's proposed continuation of a "Revised RBA Rate Adjustment" of \$0.000582 in the months after the Commission approves an interim rate adjustment in the pending HECO general rate case, even though the RAM revenue increase amount is intended to reset to zero upon replacement with rate case interim rates.

The balance of this section of the Consumer Advocate's comments will recite HECO's stated basis for its position regarding entitlement to, and accrual of, RAM increase revenues as of March 1, 2011.

A. SUPPORT FOR THE HECO-PROPOSED REVENUE ACCRUALS.

HECO's claimed support for the contention that RAM revenue entitlement commences on March 1, is referenced primarily within the footnotes and Attachments to the Company's Application.

For example, at page 2 of its Application, HECO acknowledges that Section D of the RBA Tariff requires that the RAM Revenue Adjustment be recovered, "... through a per kwh RBA Rate Adjustment over the twelve months from June 1 of the current calendar year (i.e., 2011) to May 31 of the succeeding calendar year (i.e., 2012)" but then HECO asserts, "For financial reporting purposes, the Company will accrue the associated revenues from March 1, 2011 through December 31, 2011" with no reference to the tariff. Instead, the reference within Application footnote 2 is to a letter

filed by HECO on July 13, 2009 in Docket No. 2008-0274. A copy of this letter is set forth as Attachment A to these comments.

The Consumer Advocate did not respond to HECO's July 13, 2009 letter and continues to take no position with regard to HECO's financial reporting and revenue recognition policies arising from decoupling. It is recognized by the Consumer Advocate that the Company's publicly issued financial statements are governed by Generally Accepted Accounting Procedures ("GAAP") and that HECO's compliance with GAAP is overseen by the Company, through interaction with its financial audit firm. There is no reference to GAAP or to HECO's revenue recognition policies within either of the tariffs approved to implement decoupling. Instead, the RBA tariff states clearly at paragraph "A: PURPOSE" that, "...the recovery provision of this tariff provides for collection or return of the calendar year-end balance in the RBA and recovery of the RAM Revenue Adjustment provided in the Rate Adjustment Mechanism ("RAM") Provision over the subsequent June 1st through May 31st period." A more extensive analysis of the tariff provisions is provided in a subsequent section of these comments.

At page 7 of its Application, HECO references Attachment 2 where a summary of the proposed RBA rate adjustment is presented. According to the Application, "Attachment 2 also reflects the proration for 306 days out of 365 days, i.e., ten months, of the estimated annual O&M RAM and Rate Base RAM to reflect the March 1, 2011, decoupling effective/implementation date." This reference to "proration" based upon a

number of days cannot be found anywhere in the Commission-approved RBA or RAM tariffs.⁷

HECO explains its adoption of this new proration procedure in Attachment 2 based upon its proposed number of days approach within footnote 7, where the Company references Exhibit C, Item A, that was filed jointly by HECO and the Consumer Advocate by Letter dated June 25, 2009 in Docket No. 2008-0274. This Exhibit C was a matrix indicating how the positions of the HECO and the Consumer Advocate changed throughout the process of negotiation of the final RBA/RAM decoupling procedures. A copy of Exhibit C from the joint June 25, 2009 submission is included as Attachment B to these comments. It is notable that HECO appears to rely upon the Consumer Advocate's earliest submitted RAM "Conceptual Framework Proposal" dated January 30 to support a conclusion that the Consumer Advocate at one time supported, "A HECO RAM [that] shall be implemented to commence with a 'base' year 2009 and with authorized revenue changes effective on January 1, 2010 and again at January 1, 2011, but with the corresponding rate adjustments delayed to May 1 of each year so that the established revenue variance will be recovered over the subsequent eight months of the year." The same Exhibit C clearly shows that the final jointly sponsored and approved decoupling mechanism did not result in "revenue changes effective on January 1" and did not provide that any "revenue variance will be recovered over the subsequent eight months of the year." Footnote 7 to the Company's Application confirms that, "the Consumer Advocate and Hawaiian Electric later agreed

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The RBA tariff is Attachment 1 to the Application. Both the RBA and RAM tariffs were submitted by HECO in Transmittal Letter dated January 24, 2011 in Docket No. 2008-0083 in compliance with the rate case Final Decision and Order, filed on December 29, 2010.

that the recovery of the established revenue variance would be over the subsequent 12 months, June 1st through May 31st."

B. RATE CASE INTERIM RATES INTEGRATION.

At page 8 of its Application, HECO states, "Although the RAM Revenue Adjustment for the test year is set to zero from the date the interim rates become effective, the RBA Rate Adjustment, which begins June 1, must still be recalculated and reset to recover the RAM Revenue Adjustment accrued between March 1, 2011, the effective date for revenue decoupling and the effective date of the RBA and RAM tariff provisions, and the date that interim rates become effective. Hawaiian Electric will revise the RBA Rate Adjustment to reflect the new RAM Revenue Adjustment as a result of an interim decision in a rate case in the manner illustrated in Attachment 5." According to HECO, this proposed "recalculation" involves a six step process listed at page 2 of Attachment 5, involving another set of calendar days proration calculations. HECO provides no references into the RBA or RAM tariffs or any materials filed in Docket No. 2008-0274 for this six step process or the daily prorate calculations set forth therein. The Consumer Advocate submits that these calculations are not supported by the record in the decoupling proceeding and are wholly unnecessary given the clearly defined effective dates for RAM revenue changes.

The Consumer Advocate concurs with HECO's view at page 8 of its Application that, "...the RAM Revenue Adjustment for the test year is set to zero from the date the interim rates become effective." However, we find no support for the notion that any recalculation of RAM is either needed or appropriate after newly authorized interim rates

are implemented by the Commission, as more fully described below. Once new interim rates are approved for HECO's 2011 test year, the newly authorized revenue level becomes the new target revenue for monthly tracking under the RBA provision, with no ongoing charges for alleged underrecoveries of RAM revenues as calculated in Attachment 5 to HECO's Application.

C. HECO TESTIMONY REGARDING ACCRUED RAM REVENUES.

HECO witnesses have previously testified regarding their understanding of the effective dates for RAM revenue changes, as well as the Company's entitlement to any RAM revenue accruals prior to June 1. On this matter, HECO witnesses Mr. Hee, the Manager of the Company's Energy Services Department and Ms. Nanbu, HECO's Controller, seemed to agree that the RAM recovery from customers begins on June 1. However, on the question of financial accounting recognition for RAM revenues, that is the subject of the Consumer Advocate's comments, there was less agreement and considerable confusion.

The uncertainty among HECO witnesses regarding the proper accounting treatment to be afforded future RAM revenue changes can be observed in the transcripts from the Docket No. 2008-0274 panel hearings at pages 508-511:

MR. CHAMPLEY: And you could conceivably think of it as a calendar year test period in the sense that you're using that to determine the amount of the RAM increase. The question then is, if one of the major purposes of the RAM is to reduce regulatory lag, and if the RAM rate increase that the customers begin to pay occurs on June 1st, would this imply that there's still a five months of regulatory lag under the RAM mechanism?

MR. HEE: First, the purpose of the RAM is to recover costs that the companies incur between rate cases. And those costs can be both

O&M, as well as the return on and return of items in rate base. The RAM recovery from customers begins on June 1, assuming that the Commission approves the RAM calculation that's filed on March 31st. However, the company books the RAM revenue for that year as if it began in January 1 of that year. Patsy, do you have anything to add to that?

MS. NANBU: We would begin recording the RAM adjustment from June 1st.

MR. CHAMPLEY: So if that is the case, there is, then, a five-months, in essence, regulatory lag under RAM. So said another way, in 2010, you would only get 7/12 of the annual RAM calculated revenue; is that correct?

MR. HEE: Let me respond from a cash basis, differentiating between a cash basis and accounting basis. The RAM revenue is going to be, for accounting purposes, booked into the company's books effective on January 1 through January 31st of the RAM year. However, for cash purposes, because the RAM will be collected through the RBA surcharge, which is effective on June 1 of each year, and is collected for the following 12 months, the cash will be recovered beginning June 1 through May 31st of the following year.

MR. CHAMPLEY: So the customer -- said another way, the customer's obligation under RAM really while they don't pay for it on their bills, the customer obligation is created on January 1st of 2010.

MR. HEE: I'm not sure what's meant by customer obligation, but it is -- it is placed into the company's books effective on January 1 of each of those years.

MR. CHAMPLEY: Well, to record, if you will, my term, a regulatory asset on January 1st, that would imply that there's, you know, a commencement of a customer obligation as of that date.

MS. NANBU: I don't think we would be able to record a regulatory asset as of.

MS. HIGASHI: Cannot hear you.

MS. NANBU: I don't think we'll be able to record a regulatory asset as of January 1st. So to answer your question, there is a lag, but that was -- the lag was -- initially in our proposal, we wanted to start on January 1st, but as with the discussions with the Consumer Advocate where they wanted to see the actual cost for the

proceeding [sic] year, we agreed to have the filing done by March 31st such that we could reflect the recorded information from the prior year. So there is a lag.

MR. CHAMPLEY: Then I guess I'm confused in listening to the two responses from HEC Co. as to how -- if there is a lag, how do you effectively, you know, record it financially on your books on January 1st?

MS. NANBU: Because until June 1st, we would not have Commission approval to actually -- to actually collect that RAM amounts.

MODERATOR: I'm sorry, could you repeat that answer. Prior to June 1st you would not have the Commission permission to do what?

MS. NANBU: We wouldn't have the Commission approval to collect that RAM amounts. I guess the way the tariff and the proposal is set up is that after we file by March 31st, the Commission and the Consumer Advocate has the ability to review our filing and the tariffs would go into effect on June 1st. It is at that point that we have approval to collect the RAM.

MR. CHAMPLEY: So at that point, then, would HEC Co. make a retroactive, you know, financial adjustment?

MS. NANBU: I have not totally researched that. My understanding, at this point, is I'm not sure we would be able to reflect the regulatory asset at that point.

MODERATOR: At which point?

MS. NANBU: At June 1st, for the period from January 1st to May 31st.

As noted previously, the Consumer Advocate does not believe it necessary for the Commission to interpret GAAP revenue recognition accounting requirements. The immediate regulatory issue at this time is when ratepayers are obligated to pay the RAM revenue increase. On this point, HECO's witnesses agreed that June 1 is the operative date when RAM recovery is to commence and any complex reconstruction of the record or recalculation of asserted RAM revenue entitlements before this date are inappropriate.

III. THE CONSUMER ADVOCATE'S POSITION.

The Consumer Advocate believes that the RBA and RAM tariffs clearly prescribe when and how RAM revenue changes are to become effective. Recovery of the RAM increase is to begin at June 1 of each year, after review and approval by the Commission. Recovery is to continue through the following May 31, unless a Commission-approved Interim Rate Increase or Final Rate Increase occurs within this 12-month period, at which point the level of target revenues HECO is entitled to recover from customers is updated and the pending RAM recoveries are superseded.

The Commission is encouraged to not approve HECO's proposed RAM rate adjustment calculations set forth in Attachments 2 and 5 to the Application, as such approval may constitute a modification of the existing decoupling mechanism so as to expand the scope of revenue relief that was agreed upon in the Joint Final Statement of Position submitted by HECO and the Consumer Advocate in Docket No. 2008-0274.

A. REVENUE CHANGE EFFECTIVE DATES ARE CLEARLY DEFINED.

The Revenue Balancing Account ("RBA") Provision tariff states the following at HECO Tariff Sheet No. 92:⁸

A: PURPOSE:

The purpose of the Revenue Balancing Account ("RBA") is to record: 1) the difference between the Hawaiian Electric Company's target revenue and recorded adjusted revenue, and 2) monthly interest applied to the simple average of the beginning and ending month balances in the RBA. In addition, the recovery provision of this tariff provides for collection or return of the calendar year-end balance in the RBA and recovery of the RAM Revenue Adjustment provided in the Rate Adjustment Mechanism ("RAM") Provision over the subsequent June 1st through May 31st period.

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The Revenue Balancing Account tariff is included with HECO's Application as Attachment 1.

Tracking of target revenue and recorded adjusted revenue will commence on the effective date of the tariff that implements the Final Decision and Order in Hawaiian Electric's 2009 test year rate case, Docket No. 2008-0083, consistent with the Final Decision and Order in the Decoupling case, Docket No. 2008-0274. [emphasis added]

HECO's Application is seeking to adjust rates to accomplish "recovery of the RAM Revenue Adjustment provided for the Rate Adjustment Mechanism ("RAM") Provision."⁹ The RBA Provision requires that this recovery occur, "over the subsequent June 1st through May 31st period." There is no language in the tariff that permits recovery of the RAM Revenue Adjustment Amount after proration for a shortened RAM Period from March 1 to December 31, as envisioned in Attachment 2 to HECO's Application. There is also no language in the tariff permitting a restatement of RBA Rate Adjustment Revenue to account for RAM recoveries before and after an Interim Rate Order, as envisioned in Attachment 5. The RBA tariff is also dispositive with regard to the proper treatment of an Interim Rate Order that occurs after RAM recoveries have commenced, in the stated definition of Target Revenue:

B: TARGET REVENUE:

For the purpose of the RBA, the target revenue is the most recent Authorized Base Revenue approved by the Public Utilities Commission (PUC), plus or minus the RAM Revenue Adjustment calculated under the RAM Provision, adjusted to remove amounts for applicable revenue taxes. The target revenue will exclude revenue for fuel and purchased power expenses that are recovered either in base rates or in a purchased power adjustment clause and all revenue being separately tracked or recovered through any other surcharge or rate tracking mechanism.

When a newly issued Interim Rate Order in HECO's pending 2011 test year rate case is filed, it will define the "most recent Authorized Base Revenue approved by the Public

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Application, page 1.

Utilities Commission (PUC)” as used in the RBA tariff. It would be nonsensical to add any amount of revenue increase amounts estimated via RAM escalation procedures to a newly implemented interim level of Authorized Base Revenue approved by the Public Utilities Commission. Again, the revised but continuing RAM rate element, as envisioned in Attachment 5, is inconsistent with the RBA tariff language.

On June 25, 2009, HECO and the Consumer Advocate submitted Revised and New Exhibits for the Joint SOP in Docket No. 2008-0274. This submission included the Exhibit C matrix that is attached to these comments as Attachment B. It also included a “Simplified Example Revenue Balancing Account” Exhibit C, Attachment 5 that is included as Attachment C to these comments. The spreadsheet submitted jointly in June of 2009 is illustrative of the understanding between HECO and the Consumer Advocate that annual RAM revenue recoveries would be supported by a filing each March, with implementation of the RAM revenue increase the following June of each year. This pattern of filings and rate recovery periods is evidenced by the increase in monthly “Target Revenue” in column B of the spreadsheet at each June date, as explained in margin notes in the far right column of the spreadsheet. Had there been any intent to retroactively accrue revenues from March or any other date prior to June, the balancing account would require adjustment in column B prior to June in order to allow HECO to retain the intended level of revenues after RBA reconciliations were prepared.

B. RAM REVENUE ADJUSTMENTS ARE CLEARLY DEFINED.

The Rate Adjustment Mechanism ("RAM") Provision tariff represents the Commission-approved rules through which adjustments to the level of target revenue tracked through the Revenue Balance Account ("RBA") tariff are to be calculated. In the Definitions section of the RAM tariff, we can observe that:

o) "The Ram Revenue Adjustment shall be the difference between the calculated Authorized Base Revenue for the RAM Period and either: 1) the previous year's calculated Authorized Base Revenue; or 2) the revenue requirement approved by the Commission in an interim or final decision in the Company's general rate case, whichever is more recent. The RAM Revenue Adjustment determined by this RAM Provision is to be recovered through the RBA Provision commencing on June 1 and over the subsequent 12 months after June 1. [emphasis added]

There is no ambiguity regarding the recovery period for RAM Revenue Adjustments.

There is also no direction or authorization to:

- Carry back any retroactive RAM revenue entitlement to months prior to June;
- Apply proration of calculated annual RAM revenue requirement amounts as proposed by HECO in its Application Attachment 2; or
- Apply proration and revision of calculated annual RAM revenue amounts as proposed in HECO's Attachment 5.

In fact, definitional paragraph (n), the RAM tariff indicates that the calculated Authorized Base Revenue for purposes of the tariff are to be annual amounts, not monthly prorated or revised and adjusted amounts:

n) The Authorized Base Revenue shall be the annual amount of revenue required for the utility to recover its estimated Operations & Maintenance, Depreciation, Amortization and Tax expenses for the RAM Period, as well as the Return on Investment on projected Rate Base for the RAM Period, using the ratemaking conventions and calculations reflected within the most recent rate case Decision & Order

issued by the Commission, quantified in the manner prescribed herein.
[emphasis added].

No other provisions within the RAM tariff indicate any need for additional calculations to determine the monthly proration of RAM-derived Authorized Base Revenue in the manner being proposed by HECO in its Application at Attachments 2 and 5.

C. THE JOINT FINAL SOP DOES NOT SUPPORT HECO'S POSITION.

On May 11, 2009, HECO and the Consumer Advocated submitted their Joint Final Statement of Position ("JFSOP") in Docket No. 2008-0274. In the JFSOP, the timing of decoupling filings and rate changes was clearly identified. According to page 21 of the JFSOP, "On or before March 31, the Company will file with the Commission a statement of the previous calendar year-end balance in each¹⁰ RBA sub-account and the Authorized Base Revenue level for the current calendar year, along with supporting calculations. Both an amortization of the previous calendar year-end balance in the RBA sub-accounts and the RAM Revenue Adjustment will be recovered through separate per-kWh RBA rate adjustments, one for residential customers and one for commercial and industrial customers, respectively, over the 12 months from June 1 of the current calendar year to May 31 of the succeeding calendar year." An illustration of this simplified, single-annual rate calculation was set forth in Exhibit C, Attachment 3 to the JFSOP. This illustration and the broader JFSOP make no mention of RAM revenue accruals for periods prior to June 1 or to prorating

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At the date of the JFSOP, two separate RBA balancing accounts for residential and commercial revenue tracking were envisioned. In later revisions, a single RBA tracking account was adopted.

RAM revenue amounts on a monthly basis as suggested in Attachments 2 and 5 to HECO's Application.

Pages 6 and 7 of the Joint Final SOP properly characterize the January 30, 2009 Preliminary Proposals of the Consumer Advocate and HECO as "discussion drafts" that did not represent the final positions of the Consumer Advocate or of HECO at that time. The JFSOP describes a series of meetings, information requests for information, the Commission's Scoping Paper and other procedural steps that occurred prior to development and submission of the JFSOP. It is inappropriate and potentially misleading for HECO, in its Application at footnote 7, to now imply that statements made by the Consumer Advocate in its earliest RAM "Conceptual Framework Proposal" are now supportive of accrual accounting for RAM revenue increases as of March 31 or any date prior to June 1. Exhibit C to the JFSOP clearly shows the evolution of the rate change "Effective Date" from January 1, as originally proposed in "HECO COMPANIES' PROPOSAL" to "FSOP-June 1st" in the "AGREEMENT" column of the matrix document.

IV. REGULATORY POLICY GUIDANCE.

The Consumer Advocate encourages the Commission to not re-open the decoupling provisions set forth in the RBA and RAM tariffs, which resulted from months of information exchange, preliminary statements of position, negotiation, discovery, final statements of position, panel hearings and Commission deliberation. If it was intended by HECO and the Consumer Advocate that RAM revenue recovery was to commence at any date prior to June 1 of each year, the Final Statement of Position, tariffs and other filed documents in Docket No. 2008-0274 would and should have clearly indicated

this intent. The Consumer Advocate submits that each element of decoupling that was ultimately agreed upon between the Company and the Consumer Advocate was bargained for in good faith, with an understanding that compromise was required. As noted in the Consumer Advocate's Post-Hearing Opening Brief filed in Docket No. 2008-0274, our approach to the decoupling issues was guided by several important principles:

- Any decoupling mechanism should be conservative in design, while balancing the interests of ratepayers and shareholders in just and reasonable rates.
- Decoupling should employ simple and administratively workable methods, with filings and review procedures that can be efficiently reviewed and approved.
- Ratepayer safeguards must be designed into the decoupling mechanism, to provide additional assurance of just and reasonable rates.¹¹

The details of RAM and RBA rate change calculations, review procedures and the effective dates for RAM revenue increases remain an important part of the conservatism, simplicity and ratepayers safeguards that was negotiated into the decoupling process and these key elements should not be changed to introduce the new advance revenue accrual procedures being advocated by HECO.

A June 1 effective date for RAM revenue increases is reasonable and remains appropriate as a matter of regulatory policy. HECO cannot reasonably claim any surprise that a June 1 effective date for RAM revenue changes has the effect of imposing five months of regulatory lag. The record in Docket No. 2008-0274 clearly indicates that the June 1 effective date was widely understood and well documented.

¹¹ Division of Consumer Advocacy's Post Hearing Opening Brief in Docket No. 2008-0274, September 8, 2009, page 9.

Such minimal regulatory lag must be viewed in the broader context of the substantial changes to the Hawaii regulatory framework that the RBA and RAM provisions represent. When compared to traditional rate cases that take many months to complete and may occur several years apart, the RAM adjustments represent extremely expedited ratemaking and also represents significant elimination of the regulatory lag that existed prior to the Commission's authorization of decoupling.

HECO also appears to believe that RAM revenue recoveries are appropriate beyond the date of any Interim Order revenue change that will be filed in Docket No. 2010-0080 and any other future interim Order in a rate proceeding. Attachment 5 to the Company's Application envisions a recalculation of a Revised RBA Rate Adjustment to be applied after the Commission approves interim rates, to recover a pro-rated share of "Remaining Adjusted 2011 RAM" on top of newly approved interim 2011 test year rates. As noted herein, no such proration or recalculation of RAM revenues or RBA Rate Adjustments is provided for within the approved tariffs for decoupling or any other documents submitted jointly by the Consumer Advocate and HECO.

The Consumer Advocate's position on this matter is consistent with the approved tariff. As discussed throughout Docket No. 2008-0274 and noted within, the Consumer Advocate's efforts were focused on complying with the form of decoupling that was set forth in the Energy Agreement Among the State of Hawaii, Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and the Hawaiian Electric Companies signed in October 2008 ("Energy Agreement"). As discussed in Docket No. 2008-0274, there are various forms of decoupling and the general concept of the form of decoupling set forth in the Energy Agreement is by no means the simplest

nor the most conservative. Thus, the Consumer Advocate strived to collaborate on creating a mechanism that could be as conservative and easy to administer as possible, while still adhering to the Energy Agreement. HECO's contention set forth on Attachment 5 is neither conservative nor simple since the proposed proration calculation and recalculation of the amount to be recovered in a year when the Commission will file an interim or final decision and order in a rate proceeding will add unnecessary layers of processes.

The Consumer Advocate further contends that the decoupling mechanism should remain consistent with the existing regulatory principles, especially as it relates to setting rates on a prospective basis. General ratemaking practice does not allow the establishment of rates that are retroactive in nature. For example, when an interim decision and order is filed in a rate proceeding, even if that interim decision and order is filed after the start of the test year, the utility company is not allow to recover the incremental, increased revenues for the months preceding the date of the interim decision and order. To illustrate, assume that there is a calendar test year, such as 2011, and an interim decision and order is filed at the end August 2011 where the utility is able to increase rates by 10%. That increase is applied only to the rates on a going forward basis and the utility is not able to recover an amount that could be calculated by applying the 10% increase in rates to the months January through August 2011.

Another example of how the Company's proposal is unacceptable is the Commission's decision regarding the recoverability of general planning costs for Integrated Resources Planning. As set forth in the Decision and Order filed

on January 6, 2011 in consolidated Docket Nos. 94-0316, 95-0362, 96-0341, 97-0358, 98-0339, 99-0338, 00-0360, 01-0409, 02-0359, 03-0276, 04-0295, 05-0273, 2006-0393 ("IRP Decision and Order"), the Commission found that incremental costs incurred in years concurrent with rate case test years should be disallowed for recovery. As a brief summary, in these dockets, the HECO Companies and the Consumer Advocate disputed whether costs incurred for IRP purposes from January 1 up to the date of the interim decision and order filed in ongoing rate cases should be recoverable through the IRP surcharge. The Commission agreed that since those IRP costs were already considered in setting the new base rates approved in the interim decision and order, those IRP costs should not be recoverable through the IRP surcharge. As illustrated on page 4 of Attachment 5, the Company is seeking the ability to recover RAM revenues related to costs that would have already been reflected in the interim decision and order that approved new base rates effective as of July 1, 2011.

V. CONCLUSIONS AND RECOMMENDATIONS.

For all of the reasons stated herein, the Consumer Advocate urges the Commission to resolve the concerns raised in HECO's Application associated with uncertainty regarding the effective date of RAM Revenue changes. We respectfully request clarification of the Commission's previous Orders approving decoupling, with instruction to the parties to adopt the June 1 effective date that is set forth in the RBA and RAM tariffs, without proration or adjustment for retroactive applicability and accounting accruals. We also recommend clarification that the Interim Order expected to be filed in HECO's pending rate case, Docket No. 2010-0080 will fully address the

Company's 2011 revenue requirement and should supersede and replace any RAM revenues being recovered at that time.

DATED: Honolulu, Hawaii, April 21, 2011.

Respectfully submitted,

By Jeffrey T. Ono
JEFFREY T. ONO
Executive Director

DIVISION OF CONSUMER ADVOCACY

Hawaiian Electric Company, Inc. • PO Box 2750 • Honolulu, HI 96840-0001



Darcy L. Endo-Omoto
Vice President
Government & Community Affairs

July 13, 2009

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PUBLIC UTILITIES
COMMISSION

The Honorable Chairman and Members of
the Hawaii Public Utilities Commission
Kekuanaoa Building, 1st Floor
465 South King Street
Honolulu, Hawaii 96813

Dear Commissioners:

Subject: Docket No. 2008-0274 – Decoupling Proceeding
Questions from Panel Hearings Held on June 29 to July 1, 2009

On July 1, 2009, during the decoupling panel hearings held on June 29 to July 1, 2009, the Commission issued PUC Hrg. Ex. 1 which asks specific questions regarding the HECO Companies' response to PUC-IR-14.¹ The responses to these questions are provided in Attachments 1 and 2.

During the hearings the Commission verbally asked the Companies questions regarding the Consumer Advocate's and the HECO Companies' Joint Final Statement of Position, filed on May 11, 2009, as revised on June 25, 2009, and also asked for written clarification of the Companies' positions and testimony made during the hearings. The following responds to these requests:

1. What can the Commission do to help improve the Companies' financial health?

Response: In general, there are four themes that are important to improving the Companies, financial health:

1. Reasonable assurance that costs incurred to provide service to ratepayers are paid for through the rates paid by ratepayers
2. Timely recovery of those costs incurred to provide service to ratepayers
3. Regulatory support that aligns incentives with policies
4. Reducing regulatory uncertainty – which is directly related to the previous three points above.

¹ The "HECO Companies" or "Companies" are Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited.

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the Hawaii Public Utilities Commission
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The Companies require a realistic opportunity to earn the return reasonably determined to be fair.

A fair return must:

- (1) be commensurate with returns on investment in other enterprises having corresponding risks and uncertainties;
- (2) provide a return sufficient to cover the capital costs of the business, including service on the debt and dividends on the stock; and
- (3) provide a return sufficient to assure confidence in the financial integrity of the enterprise to maintain its credit and capital-attracting ability.

For example, HECO has not been able to earn its allowed return in recent history. Below is a summary of the HECO's recent returns²:

	Return on Rate Base	Return on Common Equity
2005	6.20%	6.92%
2006	6.78%	7.61%
2007	4.92%	4.52%
2008	7.05%	8.07%
2009 1st Qtr	6.42%	7.32%

The returns that HECO have actually earned have been substantially lower than those used to establish rates in its recent rate cases for a number of reasons.

Structural Lag

First, although interim rate orders in HECO's most recent rate cases generally have been issued within the time frames set by law, the lag between the start of the test year and the interim rate relief has not allowed HECO the opportunity to actually earn the allowed return in the test year. This is due in part to the timing of the filing of the rate case applications by HECO. However, even if the Company were to file its rate case at the earliest possible time allowed under the Commission's rules (as it has done in the HECO 2009 rate case rate case Docket No. 2008-0083), six months prior to the start of the test year, the statutory deadline for an interim decision would be May at the earliest (and June if the evidentiary hearing has not been held). Because of this structural lag, it would be difficult for the Company to achieve its authorized return in the test year even if it were to file its rate case application at the earliest allowed date. Under the test year concept, the amount of the rate increase approved by the Commission in a general rate case, which uses an average rate base, generally is the increase in revenues necessary at the beginning of the test year. Unless a rate increase is effective at the beginning of a test year, the utility will not have an opportunity to

² Interim and final rates in HECO's 2005 test year rate case (Docket No. 04-0113) were based on a 8.66% rate of return on rate base ("ROR") and a 10.7% rate of return on common equity ("ROE"). Interim rates in HECO's 2007 test year rate case (Docket No. 2006-0386) were based on a 8.62% ROR and 10.7% ROE.



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Page 3

earn the fair rate of return on rate base determined to be fair and reasonable by the Commission, based on the estimated results of operations for the normalized test year. If the rate increase is received later in the test year, the amount of the rate relief actually received in the test year will be proportionately lower than that determined to be necessary.³

HRS §269-16(d) does not require a decision in nine months; it simply requires that the PUC "make every effort to complete its deliberations and issue its decision as expeditiously as possible and before nine months from the date the public utility filed its completed application; provided that in carrying out this mandate, the [PUC] shall require all parties to a proceeding to comply strictly with procedural time schedules that it establishes." If a decision is rendered after the nine-month period, the PUC "shall report in writing the reasons therefore to the legislature within thirty days after rendering the decision." The schedules agreed to by the parties invariably require more time, due to the time required for the pre-discovery phase (public hearings, motions to intervene), discovery phase (information requests and filed testimonies), hearing phase, briefing phase, and decision phase.

Accordingly, July 1st is the earliest date the Companies may file for a test year (without a waiver) that runs from January 1 through December 31 of the following year. Typically, that means that a rate increase is not authorized until well into the test year.

HAR §6-61-87(4): "...The test year shall be a forward test year, determined as follows:

(A) If an application is filed within the first six months of any year, the test year shall be from July 1 of the same year through June 30 of the following year; or

(B) If an application is filed within the last six months of any year, the test year shall be from January 1 through December 31 of the following year;"

HAR §6-61-92 allows PUC to modify the HAR §6-61-87(4) requirement if it "would impose a financial hardship on the applicant or be unjust or unreasonable." The

³ It may be worthwhile for the Companies to propose and for the Commission to consider the possibility of revising the Commission's rules to advance the allowable date to file a general rate increase application so that there is consistency between that time frame and the statutory deadline for issuance of an interim decision. Without such a structural change to the rate case process, it would be difficult for a utility to obtain interim rate relief by the beginning of the test year and to achieve a fair return on its utility property in the test year.

Even though interim rate orders allow cash flow to come to the Company during the period leading up to the final decision, the fact that a refund could be ordered with interest creates a degree of unease among the rating agencies and investors. Accordingly, since a statutory deadline exists for interim rate orders but not final decisions, Commission issuance of both interim and final orders as expeditiously as is feasible would help to allay investor uncertainty that can have a negative impact on HECO's cost of capital.

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Companies have previously received test year waiver requests granted for the early filing of rate increase applications.⁴

Actual kilowatthour sales lower than sales forecast per the rate case

Second, kilowatthour sales were lower than forecast in the rate cases, resulting in insufficient revenue dollars, which deteriorated returns. Beginning after 2004, sales growth has reversed into sales decline, and fixed costs recovered through rate components that vary with usage are not recovered until rate increases can be implemented.

Actual sales for HECO in both 2005 and 2006 were less than the sales assumed in the 2005 rate case. Additionally, actual sales in 2007 and 2008 were less than the sales assumed in the 2007 rate case. And finally, 2009 sales are projected to be less than the sales assumed in the 2009 rate case.

O&M Cost Increases

Third, costs are increasing faster than the revenues received to pay for those costs. For example, in 2006 HECO received a full year of the 2005 test year interim rate increase, but still was unable to achieve its authorized returns. Likewise, in 2008, the Company had a full year of the 2007 test year interim rate increase, but faced higher O&M than what was included in the test year revenue requirement. As long as cost increases outpace sales growth and revenues are based on sales, the Company will be in an endless cycle of catch-up, struggling to achieve a fair return on its utility property.

The following are essential for HECO to actually have a realistic opportunity to earn a fair and reasonable return:

⁴ Examples of test year waivers granted for early filing of an application:

- Order No. 16031, issued October 20, 1997, in the 1999 MECO Rate Case (Docket No. 97-0346)
 - Approval based on:
 - Anticipated completion of the Maalaea Unit M17 in November 1998
 - Increased O&M and depreciation expenses
 - Very low sales growth
 - MECO filed its application on January 9, 1998, and PUC issued an interim decision on December 28, 1998
 - The final order, Amended D&O 16922, was issued on April 6, 1999
- Order No. 12804, issued November 4, 1993 in the 1995 HECO Rate Case (Docket No. 7766)
 - Approval based on:
 - Large amount of capital projects that were anticipated to be completed in 1994 and 1995
 - High depreciation and O&M expense growth than historically experienced
 - Higher payments to IPPs for non-fuel components of energy charges that were not recovered through ECAC.
 - HECO filed its application on December 27, 1993 and the PUC issued its interim decision on December 20, 1994.
 - Final D&O 14412 issued on December 11, 1995



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(1) Rate relief allowed in the HECO Companies' periodic rate cases should be both adequate and timely. To be adequate, test year revenue requirements must fully reflect test year costs, as adjusted to account for known and measurable changes in the way the Company does business. To be timely, rate relief must be timed to coincide when cost increases incur.

(2) The HECO Companies should be allowed to continue to flow through changes in fuel and purchased energy costs through its ECAC.

Mechanisms that allow the HECO Companies to begin recovering substantial new or increased costs that occur between rate cases need to be implemented.

The Companies currently faces rapidly rising O&M costs and rising capital expenditures. It is essential that cost recovery be aligned with cost incurrence if the Companies are to have a realistic opportunity to actually earn the return found to be fair by the Commission, because sales are not growing and therefore cannot offset the increases in costs. If traditional rate cases do not allow cost recovery to keep up with cost increases, then new mechanisms need to be developed.

Rate Base Increases

Fourth, under traditional ratemaking, utilities have to wait for rate cases to be processed to begin recovering costs incurred to install new infrastructure, which means there can be a substantial lag in recovering costs, and even substantial cost under-recovery - which can result in credit degradation and a higher cost of capital. The later in the test year that the increase is received, the lower will be the amount of the increase actually received in the test year. In simple terms, if an annual increase of \$50 million is awarded after one-half of the test year has passed (which is the earliest that the interim increase could be made effective), then only approximately one-half of the increase (or \$25 million) will actually be received in the test year.

To help address these issues, traditional ratemaking should be supplemented with other ratemaking tools, such as mechanisms that allow cost recovery to begin as soon as new facilities go into service.

A number of alternative ratemaking structures have previously been implemented in order to better time cost recovery with cost incurrence.

Alternative Ratemaking Structures

End of Year Rate Base Proposals. This involves a deliberate mismatch of average sales and expenses with end of year rate base. It has been adopted for test years that reflect large capital expenditures (i.e., large differences between average and end of year rate base). The Commission has previously approved end of year rate base proposals.



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Two Year Test Year Period. A Two-Year Test Year Period supports "phased"/"step" relief extending over two years due to successive events that will occur in such years. This mechanism requires budget projections up to 2 years in advance. In addition, this mechanism requires Commission approval to use a two year test year period. The Commission has previously approved two year test period waiver requests.

Step Increases. This mechanism is intended to time cost recovery with significant expenses or changes in rate base. Step increases have been implemented for capital projects⁵, power purchase agreements⁶, and other expenses (e.g., wage increases, OPEB). This mechanism generally involves the use of annualized costs and benefits. The step increase in rates reflects the impact of the significant expense or change in rate base when it does go into effect or service and customers receive the benefits of the significant expense/capital project.

The HECO Companies have proposed mechanisms to better time cost recovery with cost incurrence, while allowing for reasonable customer protections and regulatory review. The Consumer Advocate agreed to the proposed mechanisms discussed below.

Decoupling

The Joint Decoupling Proposal filed in the "Joint Final Statement of Position of The HECO Companies and Consumer Advocate" on May 11, 2009, includes a sales

⁵ The Commission has recognized the appropriateness of including the full costs associated with major generating unit and transmission line additions in the test year results of operations. Accounting for the full costs in this manner will allow the utility the opportunity to earn a reasonable rate of return on the total investment in its major generation project, from the time it goes into service. In MECO Docket No. 7000, which utilized a 1993 test year as well as a 1992 test year, the Commission authorized two step increases in 1993 (timed to coincide with the addition of the units to MECO's system) based on the annual costs and benefits of adding M16 and M15 to MECO's system. The annual costs included depreciation expenses. (The impact of the adjustment to include the full costs of these generating units on revenue requirements was offset to some extent in the final decision and order by recognizing annual sales and revenues (net of fuel expense) for new customers added in 1993.) In Docket No. 7766, which utilized a 1995 test year, the Commission authorized, on an interim basis, a step increase in August 1995 based on the annual costs of adding the Waiau-CIP transmission lines to HECO's system.

⁶ The Commission approved the use of step increases for purchase power agreement capacity costs, based on the full annual costs of such PPAs. In Docket No. 6531, which utilized a 1990 test year, the Commission authorized the inclusion of the annual costs and benefits associated with the Kalaeloa Partners, L.P. ("Kalaeloa") PPA (by which HECO added 180 MW to its system) in revenue requirements, and a step increase based on the annual costs and benefits, even though the Kalaeloa facility went into commercial operation five months after the conclusion of the 1990 test year.

In Docket No. 6998, which utilized a 1992 test year, the Commission authorized a step increase in September 1992 for HECO's PPA with AES Barbers Point, Inc. ("AES-BP", now known as AES Hawaii, Inc.), by which HECO added another 180 MW to its system. The 1992 test year revenue requirements in Docket No. 6998 included the annual costs and benefits for the AES-BP PPA, even though AES-BP went into commercial operation in September 1992.



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decoupling mechanism, which will be implemented through a Revenue Balancing Account ("RBA"), and a Revenue Adjustment Mechanism ("RAM"). The purpose of the sales decoupling mechanism is to remove the linkage between utility sales and revenues, in order to encourage energy efficiency. The purpose of the RAM is to adjust revenues (which are decoupled from sales) to reflect changes in revenue requirements between rate cases related to increases in cost due, for example, to inflation and to continued investment in infrastructure necessary to maintain service reliability.

Purchased Power Adjustment Clause

As proposed in the HECO 2009 rate case (Docket No. 2008-0083), a separate clause which would allow the Company to pass through all reasonably incurred purchased power agreement costs including all capacity, O&M, and other non-energy payments approved by the Commission (including those acquired under the feed-in tariff) and it would either decrease the Company's risk profile or increase the Company's borrowing capacity or some combination, thereof. The greater the certainty of cost recovery, the more positive the impact on the Company's risk profile. Recovery through a cost recovery mechanism will reduce cost recovery risk, but will not eliminate it, since there would always be a risk of future changes to a recovery mechanism. Reduced risks could result in lower return requirements to investors.

Rating agencies are aware of the Companies' large purchased power obligations. S&P states in its November 28, 2008 Summary report:

The consolidated financial profile is 'aggressive', reflecting in part the very heavy debt imputation Standard & Poor's Ratings Services applies to HECO for its long-term power purchase agreements (PPAs). These obligations added about \$469 million in on-balance-sheet debt 2007 and about \$568 million beginning in March 2008 and reflect evergreening of PPA obligations. (Consistent with our published criteria, we assume that expiring PPA contracts are replaced with new ones at similar terms.) While we apply significant debt obligations to HECO, we also recognize the historical reasons that have led to HECO buying a substantial amount of its power supply from third-party suppliers and that the regulatory recovery of capacity costs associated with these contracts has been supportive.

REIP/CEI Surcharge

Establishment of an REIP/CEI Surcharge to expedite cost recovery of infrastructure that supports greater use of renewable energy or utility grid efficiency. The proposed REIP/CEI Surcharge also would be used to recover costs that would normally be



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expensed in the year incurred and to recover costs stranded by clean energy initiatives, subject to the Commission's prior approval.

The Companies need to raise additional funds for renewable infrastructure capital and deferred software development projects, while still continuing to make other investments required to maintain the reliability of the existing system. The Company's current capital expenditure budget is already significant given the aging infrastructure. The REIP/CEI Surcharge demonstrates timely ability to earn on and recover clean energy investment and expenses which is supportive of credit quality.

The HECO Companies need to be able to raise the capital in the financial markets to construct and install these infrastructure projects without degrading credit quality, or increasing the cost of capital, either of which would be detrimental to ratepayers and the development of third-party renewable energy projects. The REIP/CEI Surcharge will demonstrate regulatory support and result in more immediate cost recovery which could reduce investors' perceptions of risk (although the HECO Companies would still need to raise the capital in the first place). This may help to maintain credit quality and cost of capital, and mitigate the potential degradation in credit quality caused by increasing capital requirements.

S&P addressed electric utilities' rising capital expenditures. For example, in a report dated March 9, 2009, S&P cautioned that, "Slow recovery of costs could further impinge on its liquidity as short-term funds are consumed to finance high working-capital needs." The report added that:

"In addition to fuel-cost recovery filings, regulators likely will have to be addressing significant rate increase requests related to new large generating capacity additions, infrastructure and reliability upgrades, and environmental modifications. Current cash recovery and/or return by means of construction work in progress may mitigate the significant cash flow drain and reduce the utility's need to issue debt securities during the construction cycle." and "To the extent that utilities increase their capital budgets to address these needs, they will be highly dependent on electricity rate increases to sustain bondholder protection measures."

The HECO Companies will also be addressing the question of "what can the Commission do to help the Companies improve their financial health" in their post hearing written briefs.

2. Table 6, page 8, NRRI Scoping Paper: Is decoupling a disincentive to energy efficiency by reducing payback periods for energy conservation measures?

Response: Please refer to Attachment 3.



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3. Please explain the Companies' response to question 1 of NRRI's Scoping Paper, Appendix 2 that states that the HECO Companies recover approximately 90% of their fixed costs through volumetric rates.

Response: Please refer to Attachment 4 which describes the review undertaken by the Companies and the Department of Business Economic Development and Tourism ("DBEDT") regarding the percentage of fixed costs recovered through the Companies' volumetric rates.

4. What other costs decrease with sales besides fuel and purchased power expenses?

Response: In its response to DBEDT's question posed during the decoupling panel hearings, the HECO Companies acknowledged that there are certain production O&M expenses that are related to sales levels, such as expenses for chemicals and water. However, these expenses are relatively small, especially in comparison to fuel and purchased power energy expenses. To illustrate the relative magnitude of these production O&M expenses related to sales levels, the HECO Companies provided to the DBEDT the avoided energy cost rates for September 1, 2008 and June 1, 2009 that the HECO Companies filed with the Commission, as required by the decision and order in Docket No. 7310. These filings for HECO, HELCO, MECO Maui, Lanai, and Molokai Divisions are provided in Attachment 5. The line item "(2) Avoided O&M Cost" provides an estimate of those production O&M expenses that are related to sales levels. While the Avoided O&M Cost changes from year to year, it is small in comparison to the total avoided energy cost rate; similarly it is small in comparison to total fuel and purchased energy expenses.

5. How will the RAM revenues be accounted for in the RBA/RAM process?

Response: Based on the Joint Final Statement of Position, the Company would submit its annual RAM filing by March 31 of each year. The RAM filing would include the proposed target revenues for the year, based on the rate adjustment mechanism described in the proposed tariff. Thereafter, the Consumer Advocate and Commission would have 60 days to review the annual RAM filing, and tariffs based on the filing would become effective on June 1 of the year.

Because this mechanism is new, initially the new target revenues for the year would be established upon the completion of the review period (June 1). While described as an automatic adjustment mechanism, as a new mechanism, until the review period is completed, there is uncertainty that the proposed target revenues will be the revised target revenues for the year (revenues adjusted for the RAM filing), until it has been reviewed.

After the review period has elapsed (and adjustments to the RAM filing, if any, are made), the new target revenues have been established, and the collectability of the revised target revenue becomes certain. At that point, the HECO Companies would



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begin to accrue the difference between the revised target revenues and the actual revenues through the end of May, based on the monthly allocation of target revenues.

This is different from other automatic adjustment clauses, as this is a new mechanism and there is an explicit period in the tariff for review of the filing by the Commission and Consumer Advocate before it becomes effective.⁷ Thus there would be a lag in the revenues for the first five months of the year, at which time we would accrue the revenues to "catch-up" to the target revenues allocated through May. Thereafter, revenues would accrue based on the target revenues based on the monthly allocation factors.

6. What is in the HECO Companies' proposed inclining block rate design for schedule R customers?

Response: The inclining block rate design is proposed and stipulated to for residential customers in the current open rate cases: HECO test year 2007 and test year 2009; HELCO test year 2006; and MECO test year 2007. The proposed inclining block designs for the HECO Companies' Schedule R rates have the following common design elements: 1) each have three usage blocks; 2) the usage blocks differ in price by about 1 cent per kWh; and 3) the highest 10% of usage is targeted by the highest or "tail" block. These proposed rate designs will be implemented if approved by the Commission in their respective rate cases. Although the response of residential customers to the implementation of inclining block rates is not known, to the extent that reduced kWh sales are anticipated from the higher priced blocks, the potential reduction in fixed cost recovery due to reduced sales can be higher under a residential pricing regime of inclining block rates than under the traditional residential rate design that has a single average rate.

7. Please correct the arithmetic errors in the response to PUC-IR-43.

Response: Please see Attachment 6, which is the revised Attachment 2 to the HECO Companies' response to PUC-IR-43 .

8. If the rate base RAM is calculated based on major projects that may have costs that are disallowed in a rate case after its implementation, how does the proposed RAM tariff address this situation?

Response: Please see Attachment 7 which is the revised draft RAM provision tariff that states that RAM revenues (including interest) associated with major capital

⁷ If after the RAM mechanism has been in place for a period of time, and the review process does not result in adjustments, there may be a basis to conclude that there is certainty that the revised proposed target revenues at the time of the RAM filing will be collected, and accrual of the target revenues allocated through March 31 could be accrued at that time.



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projects' costs that are disallowed by the Commission will be refunded to customers (see highlighted language). The Consumer Advocate has concurred with this revised draft of the RAM provision. Beginning with their March 30, 2009, "Joint Proposal on Decoupling and Statement of Position of the HECO Companies and the Consumer Advocate" through their last submittal of the "Revised and New Exhibits for the Joint SOP" filed in a letter to the Commission on June 25, 2009, the Consumer Advocate and the Companies have reflected their agreement to refund RAM amounts (including interest) collected prior to the Commission's review of the major projects to the extent that these costs are disallowed (see Exhibit C, Section V, Item D, "Significant/Major Projects".) Unfortunately, the description of this agreement had inadvertently been overlooked for inclusion in the RAM tariff previously.

9. How will the Companies address the issue of outages and the target revenues?

Response: Please see Attachment 8.

The HECO Companies thank the Commission for this opportunity to clarify their testimony and address the Commission's concerns regarding the decoupling proposal.

Sincerely,



Darcy L. Endo-Omoto
Vice President
Hawaiian Electric Company, Inc.
Hawaii Electric Light Company, Inc.
Maui Electric Company, Limited

Enclosures

cc: Division of Consumer Advocacy
Hawaii Renewable Energy Alliance
Haiku Design and Analysis
Hawaii Holdings, LLC, dba First Wind Hawaii
Department of Business, Economic Development, and Tourism
Hawaii Solar Energy Association
Blue Planet Foundation



June 25, 2009

The Honorable Chairman and Members of
the Hawaii Public Utilities Commission
Kekuanaoa Building, 1st Floor
465 South King Street
Honolulu, Hawaii 96813

FILED
2009 JUN 25 P 4:25
PUBLIC UTILITIES
COMMISSION

Dear Commissioners:

Subject: Docket No. 2008-0274 – Decoupling Proceeding
Revised and New Exhibits for the Joint SOP

As discussed at the prehearing conference held on June 22, 2009, enclosed for filing are revised Exhibit C, revised Attachment 2, Exhibit C and new Attachments 5 – 7, Exhibit C for the *Joint Final Statement of Position of the HECO Companies and Consumer Advocate* ("Joint SOP") filed by the Hawaiian Electric Companies¹ and the Division of Consumer Advocacy ("Consumer Advocate") on May 11, 2009.²

Exhibit C and Attachment 2 of Exhibit C are updates to the exhibits filed in the Joint SOP. Attachment 5 of Exhibit C provides a simplified example of the Revenue Balancing Account ("RBA") to illustrate the accounting process for the RBA. Attachment 6 provides an illustrative estimate of the 2010 Revenue Adjustment Mechanism based on the Hawaiian Electric Company, Inc.'s recorded December 31, 2008 balances and the December 31, 2009 balances that are reflected as the Statement of Probable Entitlement balances filed in Docket No. 2008-0083. Attachment 7 is the Companies' and Consumer Advocate's Energy Cost

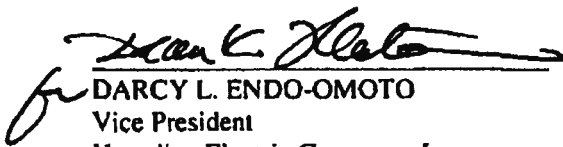
¹ The "Hawaiian Electric Companies" or "Companies" are Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited.

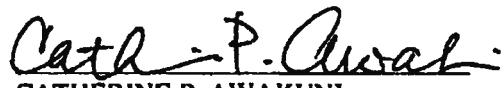
² The Companies and Consumer Advocate have agreed to include Attachment 6 of Exhibit C with the understanding that information provided in this filing was solely prepared and is sponsored by Hawaiian Electric Companies ("Companies"). Although the Consumer Advocate does not object to providing the Commission with an update, this submittal should not be construed to represent concurrence by the Consumer Advocate with regards to the reasonableness or applicability of the specified data. In this attachment, the Companies provided additional details in a modified format to reflect updated data. At this juncture, the Consumer Advocate has not had adequate opportunity to adequately review and validate the updated information provided by the Companies. The Consumer Advocate intends to focus on illustrating a methodology for the estimation of the RAM rather than trying to accurately estimate a future rate amount for purpose of proposing any such rates to the Commission.

The Honorable Chairman and Members of
the Hawaii Public Utilities Commission
June 25, 2009
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Adjustment Clause ("ECAC") deadband proposal for Hawaii Electric Light Company, Inc.
and Maui Electric Company, Limited finalized after the Joint SOP was filed.

Very truly yours,


DARCY L. ENDO-OMOTO
Vice President
Hawaiian Electric Company, Inc.
Hawaii Electric Light Company, Inc.
Maui Electric Company, Limited


CATHERINE P. AWAKUNI
Executive Director
Division of Consumer Advocacy
Department of Commerce and Consumer Affairs

Enclosures

cc: Division of Consumer Advocacy
Hawaii Renewable Energy Alliance
Haiku Design and Analysis
Hawaii Holdings, LLC, dba First Wind Hawaii
Department of Business, Economic Development, and Tourism
Hawaii Solar Energy Association
Blue Planet Foundation

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EXHIBIT C
SUMMARY OF DECOUPLING PROPOSAL AGREEMENT

I. Implementation Process & Timeline

ITEM	HECO COMPANIES' PROPOSAL	CONSUMER ADVOCATE'S PROPOSAL	AGREEMENT
A. Annual Filing Date for Approval of RBA Adjustment rates to Reflect Revenue Adjustments that Conform with the RAM Provision	November 30 th 1) Allows customers to anticipate billing change; 2) Allows Companies to use revenue estimate for budgeting & planning purposes.	February 28 th 1) Have prior year actuals of RBA roll-over balance from prior year and for estimation of rate base RAM; 2) Have 1 st quarter forecast for O&M RAM.	JSOP - February 28 th . The parties agree to the Consumer Advocate's proposal to allow use of actual recorded data for rate base calculations and depreciation and CIAC amortization expenses. FSOP - March 31 st .
B. Review Period	30 days	60 days	60 days
C. Effective Date	January 1 st	May 1 st	JSOP - May 1 st FSOP - June 1 st
D. Monthly Allocations of Target Revenues	Initial allocation will be based on the approved 2009 rate case sales MWH forecast. Post test year allocations will be based on the most current sales forecast available.	No position stated in January 30, 2009 proposal.	Initial monthly allocation will be based on the 2009 approved MWH forecast in the pending rate case. Monthly allocations will be revised based on subsequent test year mWh forecasts.
E. Recovery of Authorized Base Revenue Adjustment	Recovery by the establishment of separate kwh rates for residential and commercial/industrial customers separately.	Rates should be determined by using kwh billing determinants. RAM formula-driven revenue changes to be allocated to rate super-classes using the percentage distribution of revenue changes from the Companies' most recent rate case.	Recovery by the establishment of separate RBA Adjustment rates per kwh for two classes; all residential and all commercial/industrial customers for each of the HECO Companies (MECO's Maui, Molokai, and Lanai divisions will not establish separate RBAs or RBA adjustment rates) for a total of six RBAs.

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II. Revenue Balancing Account (RBA) Issues

ITEM	HECO COMPANIES' PROPOSAL	CONSUMER ADVOCATE'S PROPOSAL	AGREEMENT
A. Revenues Reflected In RBA	Exclude revenues that are separately recovered and reconciled for ECAC, Purchased Power Adjustment, CEIS/DSM/IRP surcharge or Pension/OP&B mechanisms.	Agree with HECO proposal.	ISOP - Target revenue is the Authorized Base Revenue approved in an interim or final decision and order in a rate case plus or minus any RAM Revenue Adjustment calculated and approved under the RAM provision, excluding revenue taxes. Target revenue will exclude revenue for fuel and purchased power expenses recovered either in base rates or in a purchased power adjustment clause and all revenue being separately tracked or recovered through any other surcharge or rate tracking mechanism. FSOP - Target revenue is the Authorized Base Revenue for each of the HECO Companies approved in an interim or final decision and order in a rate case plus or minus any RAM Revenue Adjustment calculated and approved under the RAM provision, excluding revenue taxes, and less any refunds due to the Earnings Sharing Mechanism (as described in the Illustrative Rate Adjustment Mechanism tariff). Target revenue will exclude revenue for fuel and purchased power expenses recovered either in base rates or in a purchased power adjustment clause and all revenue being separately tracked or recovered through any other surcharge or rate tracking mechanism.
B. Revenue Taxes	Excluded from targeted and actual revenues.	Agree with HECO proposal.	Included in developing RAM Revenue Adjustment for the RAM period. Excluded from target and recorded adjusted revenues for RBA tracking purposes.
C. Interest Rate on Balances in RBA	Same as Rate of Return on Rate Base (RORB) - ECAC and	6% - same as that given on customer deposits and	6% annual simple interest rate (i.e., will apply one-twelfth of 6% per month). Interest will be restated for any Commission

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	IRP surcharges use the RORB for the estimation of interest.	noted in tariff.	ordered changes to RAM Revenue Adjustments.
III. Revenue Adjustment Mechanism (RAM) – O&M Expenses			
ITEM	HECO COMPANIES' PROPOSAL	CONSUMER ADVOCATE'S POSITION	AGREEMENT
A. Labor Expense Escalators	<p>Three Global Insight indices: 1) Generation, Transmission & Distribution workers; 2) Utility Service workers; and 3) Managers & Administrators. These indices are applied to the Companies' specific costs; no additional data manipulation is required since the indices align with the presentation and formatting of the Companies' costs provided in rate case filings; 3rd party forecast so little chance of "gaming".</p> <p>The indices from the forecast issued immediately prior to the filing of the RAM tariff will be used.</p>	<p>The Union contract wage escalation rate applied to both bargaining unit and non-bargaining unit wages and salaries, reduced by the Union proposed 0.76% productivity factor.</p> <p>For post test years that are not covered by the Union contract, the agreed-upon escalation rate for the last year of the Union contract will be used.</p>	<p>The Union contract wage escalation rate applied to both bargaining unit and non-bargaining unit wages and salaries, reduced by a 0.76% productivity factor.</p> <p>For post test years that are not covered by the Union contract, the last year's wage escalation rate agreed to by the Union and Companies will be used</p> <p>FSOP – Illustrative example provided as Attachment 1.</p>
B. NonLabor Expense Escalators	<p>The Companies' estimates of nonlabor expense escalation in the post test years are based on six Global Insight material and services' indices for: 1) Steam Production;</p>	<p>GDPPi forecast issued by the Blue Chip Economic Indicators forecast service, reduced by the proposed 0.76% productivity factor.</p>	<p>JSOP - The Blue Chip Economic Indicators Consensus forecast of GDPPI issued in January (immediately prior to the filing of the RAM tariff) will be used. No productivity factor will be applied.</p> <p>FSOP - The Blue Chip Economic Indicators Consensus</p>

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Formatted: Not Highlight	forecast of GDPPI issued in February of the year of the RAM filing will be used. No productivity factor will be applied. Illustrative example provided as Attachment 1.		
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SUMMARY OF DECOUPLING PROPOSAL AGREEMENT

	year forward, there is a self-correcting true-up.	
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IV. Revenue Adjustment Mechanism (RAM) – Other Expenses

ITEM	HECO COMPANIES' PROPOSAL	CONSUMER ADVOCATE'S POSITION	AGREEMENT
A. Depreciation and Amortization Expenses	Estimated to grow at same rate as estimated rate base, i.e., trended rate base + specific significant projects' depreciation costs.	Based on Commission-approved accrual rates to the actual recorded Plant in Service balances at end of the preceding year.	Based on Commission-approved accrual rates applied to the actual recorded Plant in Service balances at end of the preceding year. (Note: Part of Consumer Advocate's RAM for rate base methodology. See item V.A. below)
B. Interest on Customer Deposits	Should be treated like other nonlabor expenses, i.e., escalated by GDPPI for RAM calculation purposes.	No escalator should be applied.	FSOP – No escalator will be applied to the approved test year amount.

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V. Revenue Adjustment Mechanism – Rate Base

ITEM	HECO COMPANIES' PROPOSAL	CONSUMER ADVOCATE'S PROPOSAL	AGREEMENT
A. Methodology	Trended Rate Base with an overlay of "significant projects" impacts.	Rate base for major elements reflect an average test year, including actual balances from prior year; plant additions comprised of baseline (5-year historical average) and major projects scheduled to be completed in first 6 months of RAM year.	ISOP - The parties agree to the Consumer Advocate's methodology as described in Exhibit B of the Joint Proposal. The 6-month period for major project completion has been extended to 9-months. The calculation of average rate base will include actual year-end balances for the preceding calendar year. FSOP – Illustrative example of calculation provided in Attachment 2.

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		accumulated depreciation includes annual depreciation on prior year-end actual plant in service balance, estimated ADIT, and estimated incremental CIAC and related depreciation impacts.	
B. Beginning Basis	Approved 2009 Rate Bases.	Prior Year Actual recorded balances for the Plant, Depreciation/Deferred Tax Reserve and CIAC elements of Rate Base	<p>JSOP - Approved 2009 test year rate bases held constant except for the components of: 1) Plant in Service; 2) CIAC; 3) Accumulated Depreciation; and 4) Accumulated Deferred Income Tax Reserve which will be based on the prior year's actual end-of-year balances as described in item V.</p> <p>FSOP - Approved HECO 2009 test year rate base and MECO and HELCO 2009 or 2010 test year rate bases held constant except for the components of: 1) Plant in Service; 2) CIAC; 3) Accumulated Depreciation; and 4) Accumulated Deferred Income Tax Reserve which will be based on the prior year's actual end-of-year balances as described in item V.</p>
C. Baseline Projection	Trended rate base, based on linear regression of 12 years of historical data, with significant projects removed.	Historical 5 year average of plant additions (without major projects) and CIAC (associated with baseline plant additions).	The parties agree to the Consumer Advocate's methodology as described in Exhibit B of the Joint Proposal.
D. Significant/Major Projects	Defined as projects (including software development projects) that are approved by the Commission that are >\$20M for HECO & >\$10M for MECO & HELCO. Project costs are limited to last authorized + 10%. Would be	Major projects are defined as CIP projects that are >\$2.5M and are included in the RAM calculation if they are expected to close to the Plant in Service account in the first half of the RAM year.	Major projects are defined as CIP projects that are >\$2.5M and are scheduled to be placed into service in the first nine months of the RAM period and recorded as Plant in Service. Major projects do not include software development projects. Major projects' costs, for the purposes of developing the RAM Revenue Adjustment will be limited to Commission-approved amounts. If a major project is not placed into service as scheduled, the RAM adjustment

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	reflected at full amount when put into service.	Inclusion of major CIP projects for RAM purposes does not foreclose any future review or evaluation of the reasonableness of the final cost of an individual project in future rate case proceedings and subsequent adjustments to the RBA to restate authorized revenue levels.	associated with it (including interest) will be refunded to customers as a credit through the RBA rate adjustment calculated for the following RAM period. Because reviews of the major projects' costs by the Commission, as actually incurred, may not occur until the rate case after the RAM revenue for the project is collected by the Companies, Authorized Base Revenues (including interest) associated with these projects would be subject to refund to the extent the Commission disallows any of the project's cost.
E. Accumulated Depreciation and Accumulated Deferred Income Taxes	Companies' proposal based on total rate base with no identification of specific components.	Since this method uses the prior year-end recorded plant-in-service balance, depreciation expense can be calculated (based on the preceding EOY plant-in-service balance and approved depreciation rates.)	The parties agree to the Consumer Advocate's methodology as described in Exhibit B of the Joint Proposal.
F. RAM for the next rate case test years	The Companies should still be able to file and implement the RAM for a test year, given the regulatory lag that is inherent in the rate case process.	Agrees that all parties may reserve the right to initiate formal rate proceedings to replace and terminate RAM at any time on a schedule other than planned. However, "the RAM revenues authorized for that year should be deemed interim and subject to refund if later deemed to be excessive.....No further interim rate relief or	The Companies and Consumer Advocate agree that parties may initiate formal rate proceedings to replace and terminate RAM at any time on a schedule other than planned. Implementation of the RAM should continue in a test year, with any RAM increase in Base Authorized Revenues in the test year deemed interim and subject to refund if the Commission ultimately orders lower Base Authorized Revenues for that test year.

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	Statement of Probable Entitlement is required...	
VI. Revenue Adjustment Mechanism – Miscellaneous		
A. 2010 RAM <u>illustrative estimate for HECO</u>	<u>Attachment 6 contains the HECO Companies' illustrative version of the HECO 2010 RAM based on the Statement of Probable Entitlement filed in the HECO 2009 Rate Case.</u>	<u>The Consumer Advocate does not sponsor Attachment 6.</u> <u>The Companies and Consumer Advocate agree that Attachment 6 may be included as part of Exhibit C with the understanding that Attachment 6 is ONLY sponsored by the HECO Companies and not the Consumer Advocate.</u>

VII. Other Issues

ITEM	HECO COMPANIES' PROPOSAL	CONSUMER ADVOCATE' PROPOSAL	AGREEMENT
A. Changes in State & Federal Tax Rates	As stated in the HCEI Agreement, the RAMs will reflect changes to the State and Federal tax rates. This provision would be included in our RAM tariff.	To be reflected in calculations to revise the RAM for changes in tax legislation or regulation having an estimated prospective annual impact upon prior year recorded utility revenues in excess of one-half of one percent (0.5%) of such revenues.	Changes in tax laws or tax regulations that are estimated to impact Authorized Base Revenues by more than \$2,000,000 (HECO) or \$500,000 (HELCO and MECO) will be reflected in calculations to estimate authorized base revenues.
B. Return on Equity	This is an item that should be decided in the rate cases. The appropriate level of ROE must be reviewed in the	A "9%" ROE is the proposed ceiling before sharing begins.	To be decided in the Companies' rate cases.

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	context of the additional risk that is being undertaken by the Companies for the HCEI initiatives.		if actual achieved ROE, calculated as prescribed in Exhibit B, is:
C. Earnings Sharing Mechanism	if an earnings sharing mechanism is required, it should have a dead band around the authorized return on equity to incent productivity or cost savings. Sharing bands should be symmetrical.	a. ROE < 9%, earnings retained by Companies. b. 9-10% ROE, 25% share credit to customers. c. 10-12% ROE, 50% share credit to customers. d. > 12% ROE, 90% share credit to customers.	<p>is:</p> <p>a. Less than the authorized ROE, all such earnings to be retained by shareholders;</p> <p>b. Between authorized ROE and ROE + next 100 basis points (one percent), 25% share credit of the revenue equivalent of such additional earnings to customers by reduction of the RBA rate adjustment;</p> <p>c. Between authorized ROE + 100 basis points and next ROE + 200 basis points (two percent), 50% share credit of the revenue equivalent of such additional earnings to customers by reduction of the RBA rate adjustment;</p> <p>d. Above authorized ROE + next 300 basis points (three percent), 90% share credit of the revenue equivalent of such additional earnings to customers by reduction of the RBA rate adjustment.</p>
D. RBA and RAM Continuation	No stated position.	The HECO 2011 rate case to serve as forum for any HECO-proposed extension or modification of the RAM, with the HECO Companies bearing the burden of proof regarding the potential continuation of RAM after the second round of base rate cases.	The parties agree that the RBA and RAM provisions will be subject to review and continuation, termination or modification in the utility's next base rate proceeding. The provisions will sunset when new base rates authorized in the next general rate case become effective, unless the Commission approves the continuation of the provisions (with or without modification).
E. ECAC Heat Rate	The HECO Companies believe that the fixed heat rate should still be maintained.	In recognition of the other parties' positions on this issue, the Consumer	Conceptually, deadbands around the Companies' authorized heat rates for each fuel type are appropriate with the ECAC operating as a full-cost pass-through when actual system

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Deadband: and HELCO, the Companies will perform studies in an effort to quantify appropriate deadbands for each company due to the impacts of sales reductions and integrating renewables onto the MECO and HELCO grids.

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SUMMARY OF DECOUPLING PROPOSAL AGREEMENT

	However, with Commission approval in the instant proceeding, the Companies are willing to implement a conservative deadband of XX btu/kwh sales above and below the HECO heat rate(s) as most recently approved by the Commission for HECO.	Advocate is willing to consider deadbands (above and below) the Companies' heat rates by fuel types as authorized by the Commission.	heat rates are between the upper and lower deadband bounds. If the actual heat rates are above the deadband bound, the utility would not be able to recover any expenses and if the heat rates are lower than the lower deadband bound, the utility will be allowed to keep any expenses saved, resulting from the lower heat rate. A deadband of +/- 50 btu per kWh is proposed for HECO (based on an extrapolation of data provided in HECO's 2009 rate case) to be placed into effect with the issuance of an Order by the Commission in the instant proceeding, assuming that the Commission has issued its decision in HECO's 2009 rate case. For MECO's Maui Division, a deadband of +/- 100 btu per kWh is proposed. Deadbands of +/- 50 btu per kWh are proposed for Molokai and Lanai Divisions. For HELCO, a deadband of +/- 100 btu per kWh is proposed. Further discussion of the ECAC heat rate deadbands may be found in Exhibit D and Attachment Z.
F. HCEI Status Report	The Companies will provide a status report on certain HCEI initiatives (e.g., New Net Energy Metering (MW); New Net Energy Metering (No. of new installations); New Renewable Energy with approval and establishment of Feed-in Tariff (MW); RPS Goals achieved) as part of their next rate case filings.	The Consumer Advocate supports a thorough review of HECO's performance relative to its commitments in the HCEI Agreement as a condition of any continuation or modification of decoupling tariffs RBA and RAM, noting that the RAM is explicitly subject to review and termination, continuation, or modification in the utility's next base rate case proceeding, upon a	The Consumer Advocate and Companies agree with the draft RAM tariff revision which states that the Companies will provide the HCEI status report as part of their base rate case filings that take place after the initial establishment and implementation of the RBA and RAM decoupling processes.

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		showing by the utility and finding by the Commission that continuation or modification is appropriate.	
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Amounts listed:
Amounts from New Order (in units of Payments)
Total Authorized Bank Deposits: Sales from new
Order:
Revenue from New Order
Profitability Reported in New Order
Purchased from New Order on PPA
Authorized Bank Deposits to Trust
Revenue Distribution by Month End Percentage
Assured Annual Interest on Bank Balance

Amounts Due:										PLG Authorized Shareholder Fee		Comments	
Amounts From Incur Order (Interest or Payments)										Approved Electric Utility Interest, including Interest Award			
Total Authorized Share Electric Sales Share from Revenue Trust on Incur Revenue										\$ 1,200			
Fuel/Electricity Required to Start Sales										\$ (175)			
Purchased Power Demand on PPL										\$ (343)			
Authorized Share Revenue to Trust										\$ (100)			
Revenue Distribution by Month End Percentages										\$ 90		Actual authorized revenue need to be distributed by month	
Assumed Annual Interest on RBA Balance										\$ 0.0%		but 5 customer deposit interest rate paid assumed.	
Revenue Rebalancing Account:										RBA		Trading	
Month	Balance	Change	Interest	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue
Jan-09	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Feb-09	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Mar-09	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Apr-09	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
May-09	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Jun-09	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Jul-09	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Aug-09	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Sep-09	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Oct-09	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Nov-09	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Dec-09	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Jan-10	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Feb-10	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Mar-10	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Apr-10	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
May-10	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Jun-10	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Jul-10	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
Aug-10	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Sep-10	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0
Oct-10	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Nov-10	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0
Dec-10	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Jan-11	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Feb-11	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0
Mar-11	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0
Apr-11	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0
May-11	29.0	29.0	29.0	29.0	29.0	29.0	29.0	29.0	29.0	29.0	29.0	29.0	29.0
Jun-11	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Jul-11	31.0	31.0	31.0	31.0	31.0	31.0	31.0	31.0	31.0	31.0	31.0	31.0	31.0
Aug-11	32.0	32.0	32.0	32.0	32.0	32.0	32.0	32.0	32.0	32.0	32.0	32.0	32.0
Sep-11	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0
Oct-11	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0
Nov-11	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
Dec-11	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0
Jan-12	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0
Feb-12	38.0	38.0	38.0	38.0	38.0	38.0	38.0	38.0	38.0	38.0	38.0	38.0	38.0
Mar-12	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0	39.0
Apr-12	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
May-12	41.0	41.0	41.0	41.0	41.0	41.0	41.0	41.0	41.0	41.0	41.0	41.0	41.0
Jun-12	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0
Jul-12	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0	43.0
Aug-12	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0
Sep-12	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
Oct-12	46.0	46.0	46.0	46.0	46.0	46.0	46.0	46.0	46.0	46.0	46.0	46.0	46.0
Nov-12	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0
Dec-12	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0
Jan-13	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0
Feb-13	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Mar-13	51.0	51.0	51.0	51.0	51.0	51.0	51.0	51.0	51.0	51.0	51.0	51.0	51.0
Apr-13	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0
May-13	53.0	53.0	53.0	53.0	53.0	53.0	53.0	53.0	53.0	53.0	53.0	53.0	53.0
Jun-13	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0
Jul-13	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0
Aug-13	56.0	56.0	56.0	56.0	56.0	56.0	56.0	56.0	56.0	56.0	56.0	56.0	56.0
Sep-13	57.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0
Oct-13	58.0	58.0	58.0	58.0	58.0	58.0	58.0	58.0	58.0	58.0	58.0	58.0	58.0
Nov-13	59.0	59.0	59.0	59.0	59.0	59.0	59.0	59.0	59.0	59.0	59.0	59.0	59.0
Dec-13	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
Jan-14	61.0	61.0	61.0	61.0	61.0	61.0	61.0	61.0	61.0	61.0	61.0	61.0	61.0
Feb-14	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0
Mar-14	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0
Apr-14	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0
May-14	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0
Jun-14	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0
Jul-14	67.0	67.0	67.0	67.0	67.0	67.0	67.0	67.0	67.0	67.0	67.0	67.0	67.0
Aug-14	68.0	68.0	68.0	68.0	68.0	68.0	68.0	68.0	68.0	68.0	68.0	68.0	68.0
Sep-14	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0
Oct-14	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Nov-14	71.0	71.0	71.0	71.0	71.0	71.0	71.0	71.0	71.0	71.0	71.0	71.0	71.0
Dec-14	72.0	72.0	72.0	72.0	72.0	72.0	72.0	72.0	72.0	72.0	72.0	72.0	72.0
Jan-15	73.0	73.0	73.0	73.0	73.0	73.0	73.0	73.0	73.0	73.0	73.0	73.0	73.0
Feb-15	74.0	74.0	74.0	74.0	74.0	74.0	74.0	74.0	74.0	74.0	74.0	74.0	74.0
Mar-15	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0
Apr-15	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0
May-15	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0
Jun-15	78.0	78.0	78.0	78.0	78.0	78.0	78.0	78.0	78.0	78.0	78.0	78.0	78.0
Jul-15	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0
Aug-15	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0
Sep-15	81.0	81.0	81.0	81.0	81.0	81.0	81.0	81.0	81.0	81.0	81.0	81.0	81.0
Oct-15	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0
Nov-15	83.0	83.0	83.0	83.0	83.0	83.0	83.0	83.0	83.0	83.0	83.0	83.0	83.0
Dec-15	84.0	84.0	84.0	84.0	84.0	84.0	84.0	84.0	84.0	84.0	84.0	84.0	84.0
Jan-16	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0
Feb-16	86.0	86.0	86.0	86.0	86.0	86.0	86.0	86.0	86.0	86.0	86.0	86.0	86.0
Mar-16	87.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0
Apr-16	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0
May-16	89.0	89.0	89.0	89.0	89.0	89.0	89.0	89.0	89.0	89.0	89.0	89.0	89.0
Jun-16	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
Jul-16	91.0	91.0	91.0	91.0	91.0	91.0	91.0	91.0	91.0	91.0	91.0	91.0	91.0
Aug-16	92.0	92.0	92.0	92.0	92.0	92.0	92.0	92.0	92.0	92.0	92.0	92.0	92.0
Sep-16	93.0	93.0	93.0	93.0	93.0	93.0	9						

Notes:

This disclaimer illustration could be separately applied to the EIA documents prepared pursuant to the National EIA Act and commercial EIA at HECO, HELCO, and MICO (considered).

[illegible]

The actual distribution of target revenues by month will be as provided in the AGA President Letter.

It is important to note that the above information is for informational purposes only and is not intended to be used for any other purpose. The information is provided for your reference only and should not be used for any other purpose.

THE UNIVERSITY OF CHICAGO

Public Benefits Fund, 207, 214M, and Solar Seven

These meetings in total recorded revenues for members for purchases other than food items. A comparison between members and non-members is not available.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **DIVISION OF CONSUMER ADVOCACY'S COMMENTS ON ATTACHMENT 5 TO HAWAIIAN ELECTRIC COMPANY, INC.'S TRANSMITTAL NO. 11-02** 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 96840-0001

1 copy
by hand delivery

DATED: Honolulu, Hawaii, April 21, 2011.

