Hawaiian Electric Company, Inc. • PO Box 2750 • Honolulu, HI 96840-000

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April 21, 2011

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PUBLIC UTILITIES
COMMISSION

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

Dear Commissioners:

Subject: Transmittal No. 11-02 – Decoupling RBA Rate Adjustment Tariff Filing
Hawaiian Electric's Comments on Attachment 5

In accordance with the letter filed by Hawaiian Electric Company, Inc. ("Hawaiian Electric" or "Company") on April 18, 2011, enclosed as Exhibit 1 are Hawaiian Electric's comments on Attachment 5 to the Company's Transmittal No. 11-02, filed March 31, 2011, and related issues.

Attachment 5 contains confidential information that the Company is providing subject to the terms of the Amended and Restated Protective Order No. 06-PO-03, issued on November 2, 2006.

Very truly yours,

Enclosure

cc: Division of Consumer Advocacy
Department of Defense (w/o confidential information)

TRANSMITTAL NO. 11-02
DECOUPLING RBA RATE ADJUSTMENT TARIFF FILING
HAWAIIAN ELECTRIC'S COMMENTS ON ATTACHMENT 5

Summary

This supplements Attachment 5 to Transmittal No. 11-02, filed March 31, 2011, in which Hawaiian Electric Company, Inc. ("Hawaiian Electric", or the "Company") submitted its adjustments to its decoupling tariff (in accordance with the tariff provisions) and requested that the Commission allow the Company's initial Revenue Balancing Account ("RBA") Rate Adjustment to become effective June 1, 2011.

Attachment 5 provided an explanation of how the Revenue Adjustment Mechanism ("RAM") will be revised to reflect the effective date of the rates approved by the Commission in its interim decision and order in Hawaiian Electric's 2011 test year rate case, Docket No. 2010-0080.

As was indicated at the informal meeting with the Commission and its staff, the Consumer Advocate, and the Company to review Transmittal No. 11-02, the Consumer Advocate disagrees with the Company with respect to the accrual of RAM revenues, which results in a significant and fundamental difference with respect to the Company's collection of RAM revenues in a rate case test year.

The Company's position is that the RAM determines an incremental revenue amount for a specific calendar year (or partial year, in the case of a rate case test year) that the Company is allowed to collect. In the case of the RAM provision, the determination of the amount of revenues to be collected is based on the adjusted revenue requirement for the current calendar year. Collection of the annual RAM amount does not begin until June 1st of the current year.

The Company does not have a written explanation of the Consumer Advocate's position, and there is nothing in the record of which the Company is aware that spells out or explains the Consumer Advocate's position. The Company's understanding, however, is that the Consumer Advocate apparently does not view the RAM as an adjustment mechanism that necessarily allows recovery of the revenue used to calculate the RAM. Rather, it apparently views the RAM as merely setting a new rate, rather than a means to recover a certain level of revenue. Whether or not the Company recovers the intended revenue adjustment depends on whether or not the interim rate order in a test year stops the collection process.

The Company's position is consistent with the language in the RAM Provision tariff, which spells out the mechanics for calculating the "RAM Revenue Adjustment". The RAM Revenue Adjustment is "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."

The period over which the annual RAM revenues (in a non-test year) or the pre-interim RAM revenues (in a rate case test year) would be collected changed during the development of the decoupling provision for various reasons. For example, the Company proposed to begin collecting RAM revenues on January 1st of a RAM year. The Company agreed to the Consumer Advocate's proposal to begin collecting RAM revenues on May 1st of a RAM year (with the collections to take place over 8 months) so that the calculation of the RAM could take into account actual year-end rate base balances for the prior year. The collection period was extended to 12 months (reducing the amount collected each month) to reduce the potential impact on customers. The collection start period was moved to June 1st to permit more review time. None of these changes were intended to somehow reduce or eliminate the recovery of RAM revenues in a rate case test year – which is what the Consumer Advocate's proposal would do.

The Company's position also is consistent with the purpose of including a revenue adjustment mechanism in a decoupling mechanism. In the *Joint Proposal on Decoupling and Statement of Position of the HECO Companies and Consumer Advocate* (March 30, 2009),[1] the Joint Parties stated that "[t]he purpose of the Revenue Adjustment Mechanism is to adjust revenues decoupled from sales to reflect changes in revenue requirements between rate cases, which should help maintain the utility's financial integrity and ability to invest in the infrastructure necessary to meet Hawaii's 70% clean energy objective, while maintaining reliable service to customers."

The Company's position is that it should actually collect the revenue adjustment provided for by the RAM. The Consumer Advocate's position would effectively eliminate the recovery of the RAM adjustment in a test year. A general rate increase application can be filed on July 1, using the next calendar year as a test year. The Commission's interim order is due within 10 months if a hearing has been held (or as of May 1 of the test year for an application filed on July 1 of the prior year), or within 10 months plus 30 days if a hearing has not been held (or as of May 31 of the test year for an application filed on July 1 of the prior year). Thus, in the case of a rate application filed on July 1st, the RAM for the test year would be completely nullified under the Consumer Advocate's position, since it would be stopped (May 1st or May 31st) even before it started (June 1st).

[1] The "HECO Companies" ("the Companies" herein) include Hawaiian Electric, Maui Electric Company, Limited and Hawaii Electric Light Company, Inc.

During the course of the proceedings, illustrations were prepared at the Commission's request showing how revenues collected pursuant to the RAM and RBA, with a three-year rate case cycle, would compare to revenues collected under a two-year rate case cycle. The Company's position tracks the illustrations submitted. The Consumer Advocate's position does not.

In addition, the Companies' position tracks the discussion of accrual accounting for the RAM that took place at the panel hearing for the decoupling proceeding. Again, the Consumer Advocate's position does not. The discussion centered on when RAM revenues for a specific year would first be recognized for financial reporting purposes – when the RAM adjustment filing was made on March 31st (so the revenues would be included in first quarter revenues), or when RAM collection for a specific year began (which would be June 1st if the RAM adjustment was not suspended, or later if it was). There was no issue as to whether the revenues would accrue back to the beginning of the year once the revenues were recognized. The discussion was further clarified as requested in the hearings as part of a response to Question 5 in the Companies' July 13, 2009 filing. The Companies were not the only parties that understood and agreed to this concept. Haiku Design and Analysis discussed this concept in its Opening and Reply Briefs. No one suggested, as the Consumer Advocate apparently now does, that the Company's collection (as opposed to accrual) of the RAM revenues would be simply cut off once there is an interim order in a rate case.

The Consumer Advocate's position would also distort the application of the earnings sharing credit component of the RAM. The Consumer Advocate's position would mean that the total amount of RAM would not be reflected in the calendar year for which it was estimated or evaluated for the implementation of the earnings sharing credit.

Further, the Company's position is consistent with the operation of other surcharge mechanisms in Hawaii, including the operation of the DSM surcharge.

Each of these points is discussed in the following sections of this supplement.

1. The RAM

The Company's position is that the RAM determines an incremental revenue amount for a specific calendar year (or partial year, in the case of a rate case test year) that the Company is allowed to collect.

In the same manner, the sales decoupling component of the RBA determines a credit or liability that the Company is allowed to collect or is required to refund.

In both cases, the collection (or refund) period differs from the period used to determine the RAM revenues and the sales decoupling differential.

In the case of the sales decoupling differential, the differential is determined based on the difference between the revenues actually collected in a calendar year, and the revenues that were targeted for collection in the last rate case (with adjustments for revenues collected as a result of the RAM Provision). The collection or refund of the difference takes place over 12 months starting June 1st of the <u>following</u> calendar year.

In the case of the RAM provision, the determination of the amount of revenues to be collected is based on the adjusted revenue requirement for the current calendar year. Collection of the annual RAM amount does not begin until June 1st of the current year.

The Companies' position is consistent with the language in the RAM Provision, which spells out the mechanics for calculating the "RAM Revenue Adjustment". The RAM Revenue Adjustment is "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."[2]

The Authorized Base Revenue is "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"[3] in the RAM Provision. The RAM Period is defined as the calendar year containing the Annual Evaluation Date. The Annual Evaluation Date is the Date the Company makes its annual filing under the RAM Provision (i.e., no later than March 31st of each year, commencing March 31, 2011).[4]

The period over which the annual RAM revenues (in a non-test year) or the pre-interim RAM revenues (in a rate case test year) would be collected changed during the development of the decoupling provision for various reasons – but none of the changes were intended to change the utility's entitlement to RAM revenues. For example, the Company proposed to begin collecting RAM revenues on January 1st of a RAM year.[5] The Company agreed to the Consumer Advocate's proposal to begin collecting RAM revenues on May 1st of a RAM year (with the collections to take place over 8 months) so that the calculation of the RAM could take into

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[2] *Tariff Applicable to Electric Service of Hawaiian Electric Company, Inc., Rate Adjustment Mechanism Provision*, Sheet No. 93B, Effective March 1, 2011.
[3] Id.
[4] Id., Sheet No. 93.
[5] *Docket No. 2008-0274 – Decoupling Proceeding, The HECO Companies' Revenue Proposal*, January 30, 2009, Revenue Decoupling Proposal of the Hawaiian Electric Companies, page 36.

account actual year-end rate base balances for the prior year.[6] The collection period was extended to 12 months (reducing the amount collected each month) to reduce the potential impact on customers. The collection start period was moved to June 1st to permit more review time.[7] None of these changes were intended to somehow reduce or eliminate the recovery of RAM revenues in a rate case test year – which is what the Consumer Advocate's proposal would do.

As reflected in Exhibit C, Item A, filed with the Letter dated June 25, 2009, Subject: Revised and New Exhibits for the Joint SOP, Docket No. 2008-0274, the Hawaiian Electric Companies accepted a delayed filing date as proposed in the Consumer Advocate's January 30, 2009 Proposal. The Consumer Advocate's proposal stated: "A HECO RAM 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."[8] The Consumer Advocate and Hawaiian Electric later agreed that the recovery of the established revenue variance would be over the subsequent 12 months, June 1st through May 31st.[9] In Transmittal No. 11-02, however, as explained in Attachment 5, because decoupling did not commence until March 1, 2011, the Company's RAM Revenue Adjustment cannot begin prior to that date. As a result, the RAM Revenue Adjustment is prorated to only reflect the 2011 period beginning March 1, 2011, that decoupling is in place.

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[6] *Division of Consumer Advocacy's HECO/MECO/HELCO Rate Adjustment Mechanism "RAM" Conceptual Framework Proposal* ("Consumer Advocate's January 30, 2009 Proposal"), pages 14-15.
[7] *Joint Final Statement of Position of the HECO Companies and Consumer Advocate, Exhibits "A" – "E" and Certificate of Service*, May 11, 2009, Exhibit C, Summary of Decoupling Proposal Agreement, page 1.
[8] Consumer Advocate's January 30, 2009 Proposal, pages 14-15.
[9] Exhibit C, page 2, to the Joint Final Statement of Position of the HECO Companies and Consumer Advocate, May 11, 2009.

The Joint FSOP at 23, filed May 11, 2009, Docket No. 2008-0274 further explains that: "The RAM Revenue Adjustment in the test year for HECO would be designated interim and subject to refund in the event the Commission finds a lower authorized base revenue amount to be reasonable for the 2011 test year. In addition, HECO will make tariff filings when necessary during the year to reset target revenues and to re-set RBA rate adjustments for re-calculated RAM Revenue Adjustments based on issuance of interim or final decision and orders in pending rate cases." The procedure for implementing the recalculation and resetting of target revenues is provided by the Company in Attachment 5 to Transmittal No. 11-02.

2. Change in RAM Amount after Rate Case Interim Order

Attachment 5 provided a detailed explanation of how the RAM will be revised to reflect the effective date of the rates approved by the Commission in its interim decision and order in Hawaiian Electric's 2011 test year rate case, Docket No. 2010-0080. The Commission's issuance of a rate case interim decision and order within a test year resets the level of target revenue and supersedes the target revenue calculated under the RAM Provision from the effective date of the interim rates. From that date the RAM Revenue Adjustment for the remainder of the test year is set to zero because the approved interim revenue requirement is recovered through interim rates.

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.

3. Purpose of RAM

The Company's position also is consistent with the purpose of including a revenue adjustment mechanism in a decoupling mechanism.

In section 28, "Decoupling from Sales", of the HCEI Agreement, the signatories agreed "to adopt a decoupling mechanism that closely tracks the mechanisms in place for several California electric utilities, as follows:

> 1. The revenues of the utility will be fully decoupled from sales/revenues beginning with the interim decision in the 2009 Hawaiian Electric Company Rate Case (most likely in the summer of 2009).
>
> The utility will use a revenue adjustment mechanism based on cost tracking indices such as those used by the California regulators for their larger utilities or its equivalent and not based on customer count. Such a decoupling mechanism would, on an ongoing basis, provide revenue adjustments for the differences between the amount determined in the last rate case and:
>
> (a) The current cost of operating the utility that is deemed reasonable and approved by the PUC;
>
> (b) Return on and return of ongoing capital investment (excluding those projects included in the Clean Energy Infrastructure Surcharge); and
>
> (c) Any changes in State or federal tax rates.
>
> Adjustments shall occur on a quarterly basis, semi-annual, or annual based or the availability of the indices utilized. The adjustments will continue until such time that they are incorporated in the utility's base rates. . . ."

In their initial Revenue Decoupling Proposal of the Hawaiian Electric Companies (as corrected, filed February 3, 2009), the Companies' "revenue decoupling proposal" was described as an automatic rate adjustment clause that contains two mechanisms consistent with the HCEI Agreement:

1. Sales decoupling, which breaks the link between sales and electric revenue, and
2. Revenue adjustment mechanism ("RAM").

The purpose of the revenue adjustment mechanism, or RAM, was to enable revenue adjustments between rate cases to the individual Companies' test year revenue requirements for changes in input prices for O&M expenses and capital requirements in the future.

In the Joint Proposal on Decoupling and Statement of Position of the HECO Companies and Consumer Advocate (March 30, 2009), the Joint Parties stated that "[t]he purpose of the Revenue Adjustment Mechanism is to adjust revenues decoupled from sales to reflect changes in revenue requirements between rate cases, which should help maintain the utility's financial integrity and ability to invest in the infrastructure necessary to meet Hawaii's 70% clean energy objective, while maintaining reliable service to customers." Id. at 1-2.

The Joint proposal also states that:

> The Rate Adjustment Mechanism ("RAM") Provision is designed to re-determine annual utility authorized base revenue levels, thus recognizing estimated changes in the utility's cost to provide service. If it is determined that annual utility Authorized Base Revenues should be decreased or increased, then the RAM Revenue Adjustment level applicable within the RBA Provision will be adjusted as set forth in the RAM Provision. The RAM Revenue Adjustments implemented under the RAM Provision will escalate and update the Company's approved base revenue requirement, reduced by any earnings sharing credits or major projects revenue credits to customers.
>
> The "Authorized Base Revenue" will be the annual amount of revenues required for the utility to recover its estimated operations and maintenance ("O&M"), depreciation, amortization and tax expenses for the RAM Period, as well as the return on investment on projected rate base for the RAM Period (referred to as the "Rate Base" in the RAM Provision), using the ratemaking conventions and calculations reflected within the most recent rate case Decision and Order issued by the Commission, quantified in the manner prescribed in the RAM Provision. The RAM Period is defined as the calendar year containing the Annual Evaluation Date (i.e., the date the utility makes its annual filing under the RAM mechanism). Since estimated O&M, depreciation, amortization and tax expenses, as well as the return on investment on projected rate base continues to increase even as the Commission

> considers on-going rate proceedings, an annual filing under the RAM Provision is expected to be filed during the test year.

Id., page 11.

In the Joint Final Statement of Position of the HECO Companies and Consumer Advocate (May 11, 2009), the Joint Parties included similar or identical statements. With respect to the RAM, the Joint FSOP states that "there is a need to allow increases in target revenue levels each year. This is accomplished through a revenue adjustment mechanism, or RAM." Id., page 11.

4. Illustrations of RAM

During the course of the proceedings, illustrations were prepared at the Commission's request showing how revenues collected pursuant to the RAM and RBA would compare under three scenarios:

1. Scenario 1: With RAM and sales decoupling and a three-year rate case cycle;
2. Scenario 2: Without RAM and sales decoupling, and a three-year rate case cycle; and
3. Scenario 3: Without RAM and sales decoupling with only a two-year rate case cycle.

The Company filed the estimated revenues based on the three scenarios in its revised response to PUC-IR-14 (revised June 25, 2009).[10] These estimated results reflect the Company's position as evidenced by the illustrations submitted. The Consumer Advocate's position does not.

In the illustrations, the assumption was that interim rate relief in a rate case test year would be received July 1st of a test year. The illustrations showed that half of the RAM

[10] The Company subsequently filed a revised response to PUC-IR-14 on June 29, 2009 to reflect the interim 2005 test year refund amount in 2007 instead of 2008 and to correct Scenario 1's case with RAM to accumulate 2012 rate base RAM with the 2013 estimated RAM. These corrections did not impact the estimated 2011 results which were filed on June 25, 2009.

revenues, estimated for the period from January 1st through December 31st, would be recovered for each test year.

PUC-IR-14

On March 3, 2009, NRRI submitted a set of information requests to the parties in the Decoupling Docket, Docket No. 2008-0274. The Hawaiian Electric Companies were asked in the original PUC-IR-14 to "(p)lease complete the attached spreadsheets" and were provided instructions for completing the three sheets for each company. The Hawaiian Electric Companies filed their initial response to this information request on March 30, 2009 and stated on page 1 that "The HECO Companies completed these spreadsheets strictly for illustrative purposes by using information and the same methodology contained in their January 30, 2009 proposal." (See PUC-IR-14 response at 1, filed March 30, 2009, Docket No. 2008-0274.)

June 25, 2009 Revised Response to PUC-IR-14 ("Revised PUC-IR-14 Response")

On June 25, 2009, the Hawaiian Electric Companies filed a revised response to PUC-IR-14 in Docket No. 2008-0274 ("Revised PUC-IR-14 Response")[11] which is provided as Exhibit 5 to this response. Exhibit 5 includes financial information for future years which is nonpublic information that should not be disclosed publicly as it might trigger requirements under the rules and guidelines of the Securities and Exchange Commission and/or the New York Stock Exchange that information that would be meaningful to investors be released to all investors, if the information is disclosed beyond a limited number of "insiders" (including persons required by agreement to maintain the confidentiality of the information and to use it only for proper purposes). As a result, the Company is filing this information subject to the terms of the Amended and Restated Protective Order No. 06-PO-03, issued on November 2,

[11] As is normally done, the Company also served both scanned copies and the source Word document and Excel spreadsheet (for Attachment 1 of the response) to the Commission and the Parties in this proceeding.

2006. (This protective order governs the classification, acquisition and use of confidential information produced by the Companies in non-docketed filings with the Commission.) If these attachments are not filed under the Amended and Restated Protective Order No. 06-PO-03, the disclosure of nonpublic financial information might trigger disclosure requirements under the rules and regulations of the Securities and Exchange Commission and/or the New York Stock Exchange.

In this Revised PUC-IR-14 Response, the Hawaiian Electric Companies attempted to update the response to reflect "the methodology and assumptions included in the Joint Proposal, as updated in the Companies and Consumer Advocate's May 11, 2009 Final Statement of Position" as well as the Hawaiian Electric 2009 test year rate case Statement of Probable Entitlement filed on May 18, 2009 and Hawaiian Electric's rebuttal testimonies filed on May 22, 2009. (Refer to page 1 of the June 25, 2009 Revised Response to PUC-IR-14.) This filing also attempted "hopefully to provide clarity to the many scenarios, permutations of various key parameters, and timing of rate reliefs and RAM adjustments," and "definitions and clarifications of simplifying assumptions are provided to facilitate the review of the revised Attachment 1." (Refer to pages 3 and 5 of the Revised PUC-IR-14 Response.) In this Revised PUC-IR-14 Response, the RAM and sales decoupling were assumed to start, effective January 1, 2010 for Scenario 1.

Among the definitions provided are the following:

> *Change caused by change in rates (rate case)*, "Row 7 - Includes rate relief for the applicable test year. The assumptions used are (1) interim rate relief is <u>effective July 1 of the test year,</u> ..." (Refer to page 5 of the Revised PUC-IR-14 Response, emphasis added)
>
> *Revenue change per proposed decoupling*, "Row 31 – Includes O&M RAM and rate base RAM revenue calculated in a manner consistent with the HECO Companies and Consumer Advocate's joint proposal filed March 30, 2009. RAMs are cumulative from year to year and are reset with each new test year rate case. <u>For years where a test year</u>

> rate case is assumed, one half of the projected RAM is used (with the other half of the year covered by the interim rate relief. See Row 7 definition.)" (Page 6 of the Revised PUC-IR-14 Response, emphasis added)

The definition of the *Revenue change per proposed decoupling* clearly stated the Company's intent to recover and accrue RAM revenues from the beginning of a rate case test year until the effective date of interim rate relief. In the Hawaiian Electric illustration for Scenario 1 (see Sheet 1), Column H represents a rate case test year scenario, labeled *Rate Case 2011*. (Refer to Attachment 1, page 1, of the Revised PUC-IR-14 Response.) This column/test year shows RAM revenue recovery for half the year and interim rate relief for the other half.

1. *Revenue change per proposed decoupling, Rate Case 2011* - \$26,993,000 (Row 31, Column H of Attachment 1, page 1 of the Revised PUC-IR-14 Response). For illustration purposes, this shows the revenue impact due to decoupling, which is the sum of \$23,234,000 and \$3,759,000. (For these amounts, refer to the contents in the cell). These dollars are the rate base RAM and the O&M RAM revenues that are based on a half-year of cumulative 2010 and 2011 rate base and O&M RAM revenues. That is, the rate base RAM for the 2011 rate case year is calculated as: (\$24,172,000 which is the 2010 rate base RAM + \$22,296,000 which is the 2011 rate base RAM) / 2 = \$23,234,000. Similarly, the O&M RAM for the 2011 rate case year is calculated as: (\$5,281,000 which is the 2010 O&M RAM + \$2,237,000 the 2011 O&M RAM) / 2 = \$3,759,000.
2. *Change caused by change in rates (rate case)* - \$25,588,000 (Row 7, Column H). This represents a half-year of the test year rate relief as the Interim D&O for the 2011 test year is assumed to be effective July 1, 2011 and is included in the *Net Revenues without proposed decoupling, Rate Case 2011* of \$559,341,000 (Row 4, Column H). (Refer to the Revised PUC-IR-14 Response, Attachment 1, page 1).

Further, the Company's intent to account for the RAM (for the period beginning January 1st until the assumed effective date of the Interim D&O) in the test year is reflected in the Estimated earnings and earnings' changes as presented on Rows 30 through 33b in Sheet 1 of the Revised PUC-IR-14 Response, i.e., the *Decoupling Analysis* portion of Sheet 1. These calculations reflect the impact of the above calculation for both the rate base and O&M RAM accrued amount.

5. Accrual Accounting for RAM

The Companies' position tracks the discussion of accrual accounting for the RAM that took place at the hearing. The Consumer Advocate's position does not.

The discussion centered on when RAM revenues for a specific year would first be recognized for financial reporting purposes – when the RAM adjustment filing was made on March 31st (so the revenues would be included in first quarter revenues), or when RAM collection for a specific year began (which would be June 1st if the RAM adjustment was not suspended, or later if it was). There was no issue as to whether the revenues would accrue back to the beginning of the year once the revenues were recognized. See Transcript of Decoupling Hearings, Vol. III (July 1, 2009), pages 508-514 (included as Exhibit 2 to this supplement); see also Response to Question 5, Questions from Panel Hearings Held on June 29 to July 1, 2009, filed July 13, 2009, pages 9-10 (included as Exhibit 3 to this supplement). No one suggested, as the Consumer Advocate apparently now does, that the RAM merely sets a new rate, rather than a means to recover a certain level of revenue.

During the Decoupling Docket panel hearings held on July 1, 2009, when questioned by the Commission's consultant on what the policy implications were regarding Haiku Design and Analysis' questions about the recording of the RAM accrual on the Company's books, Haiku

Design and Analysis stated that, "The importance of this is really ascertaining, if you will, the various benefits to be derived by the utility versus the customer interest here, and what some of the parties have suggested that there's a significant imbalance between what the customers could derive here versus what the utility could derive and trying to ascertain what benefits the utility would receive, it's very important to understand whether the – if there's regulatory lag, if you will, built in within the RAM or not. So that was the reason for this line of questioning."[12]

In the same Decoupling Docket panel hearing held on July 1, 2009, when questioned by Haiku Design & Analysis on whether the Company would reflect the RAM as if it occurred in the calendar year, the Company responded, that "The answer is, on a cash basis, we can only recover it beginning June 1. For reporting on an accounting basis for the year, once the Commission approves that on June 1, we're able to report that revenue for that calendar year. The entirety of that RAM adjustment in that year."[13] This answer was repeated in the Companies' Letter filed July 13, 2009, in response to the Commission's request for written clarification of the Companies' positions and testimony made during the hearings. As part of its response to question 5., the Companies stated that "…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."[14]

Other parties in the Decoupling Docket understood that the RAM established a level of revenues for the calendar year and its importance in terms of how the RAM addressed regulatory lag. In its Opening and Reply Briefs in the same proceeding, Haiku Design and Analysis

[12] See Transcript of Decoupling Hearings Vol. III (July 1, 2009), pages 513-514, Docket No. 2008-0274.
[13] See Transcript of Decoupling Hearings Vol. III (July 1, 2009), page 512, Docket No. 2008-0274.
[14] See pages 9-10.

pointedly describes that its proposal be approved for a one year RAM pilot "…(accrual period of calendar year 2010) …"[15] and further explains, "In accordance with the proposed RAM protocols (as specified in either the HECO and Consumer Advocate Joint Statement of Position (JSOP) or HECO's modified quarterly implementation proposal in HECO's Opening Brief), RAM revenues accruing in calendar year 2010 would result in 'lagged' collections from HECO's customers via the RAM surcharge which would continue through the second quarter of 2011." [16]

Exhibit 4 is an illustration of the accounting for the RBA provision including the accrual of the RAM regulatory asset.

Pages 1 through 3 describe the journal entries that would be required for the RBA implementation and RAM implementation. Pages 3-7 describe the example of the journal entries that would be recorded based on the assumptions provided on pages 8-9.

Page 10 provides the journal entries that support the entries to the RBA regulatory asset and the RAM regulatory asset on pages 8-9.

Specifically, as described on page 1, beginning with the effective date of decoupling, in March 2011, an entry will be made monthly to the RBA account for the difference between the target revenues established from the last rate case, and the actual revenues for the month. (See journal entry (JE) A_1/JE A_2.) In addition, interest would be calculated on the average RBA balance for month and recorded in the RBA account. (See JE B_1/JE B_2.)

The balance of the RBA account as of the end of the year, will be recovered from/returned to customers over 12-months beginning June 1 of the following year. The recovered/returned amounts will be recorded as electric revenues during the 12 month period as

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[15] Haiku Design and Analysis Opening Brief, page 37, filed September 7, 2009, Docket No. 2008-0274. Haiku Design and Analysis Reply Brief, page 2, filed September 28, 2009, Docket No. 2008-0274.
[16] Haiku Design and Analysis Reply Brief, page 2, footnote 1, filed September 28, 2009, Docket No. 2008-0274.

customers are billed/credited. (See JE C_1.) As the customers are billed/credited for the RBA balance for the previous year, the RBA account balance is reduced.

Subsequent to the effectiveness of the tariff that incorporates the annual RAM, the Company will accrue RAM revenues on a monthly basis. In the initial month of establishing a RAM, an accrual will be recorded to recognize RAM revenues earned (based on a proration over the number of days the RAM is effective during the year) for the number of days prior to the tariff being effective. The amounts will be included in a RAM regulatory asset account. Thereafter, monthly RAM revenue accruals will be recorded as earned through the end of the year in a RAM regulatory asset account. This will result in the Company recognizing the total annual RAM revenues in the proper period to which the RAM pertains. (See JE D_1.)

The collection of the RAM revenues from customers will be over a 12 month period, beginning June 1 to May 31. (See JE E_1.) As customers are billed for the RAM revenues, the RAM regulatory asset will be reduced.

Page 8 provides the assumptions used to illustrate the actual entries to the RBA account and the RAM regulatory asset account. Pages 8-9 also provide the impacts to the RBA account and the RAM regulatory asset account from March 2011 through May 2013.

The illustration shows how the RBA account is established in March 2011 for the difference between the target revenues and the actual revenues, and the interest recorded for the month. Entries in the RBA account for April and May 2011 are similar to March 2011.

In June 2011, assuming the tariff reflecting the RAM becomes effective, the RAM regulatory asset account reflects the catch-up accrual for the RAM revenues for March 2011 through June 2011. Since the tariff is effective, RAM revenues for one month is collected from customers and the RAM regulatory asset is reduced for one month of RAM collections. The target revenues for June is increased by the amount of the RAM revenues. The difference between the new target revenues and actual revenues are reflected in the RBA account. Interest is calculated on the average balance of the RBA account for the year.

Assuming an interim decision in July 2011, the RAM accrual stops in July 2011. The RBA tariff will be adjusted to collect the amount of the RAM accrued up to that point and not yet collected for the remainder of the collection period. The RAM regulatory asset continues to be reduced each month for the amount of the RAM collected from customers. The illustration assumes the interim decision and the RAM revenues would be the same, so there is no change to the target revenues for the reminder year.

This process continues until 2012 RAM revenues are calculated in March 2012 and the RBA tariff reflecting the 2012 RAM is filed with the Commission. In March 2012, RAM revenues for January through March 2012 will be recorded in the RAM regulatory asset account. The RAM revenues for April through December 2012 will be accrued monthly through the rest of the year and record in the RAM regulatory asset account. The RAM regulatory asset account continues to be reduced by the RAM revenues collected from customers (based on the tariff in effect through May 2012), and then is reduced by the RAM revenues collected from customers from June 2012 through May 2013. In the illustration on pages 8-9, it hypothetically assumes there are no additional 2013 RAM revenues, thus, there is no additional accrual shown in March 2013, and the RAM regulatory asset is reduced to zero at the end of the collection period (May 2013) for the RAM.

The RBA regulatory asset account continues to capture the difference between the target revenues and the actual revenues, and the interest on the average balance of the RBA.

The specific journal entries to support each of the entries in the RBA regulatory asset and the RAM regulatory asset are provided on page 10.

Attached, as pages 11-13 to Exhibit 4, are proposed pages to the monthly PUC report that would be provided monthly, to report the RBA and RAM regulatory assets.

6. Other Hawaii Surcharge Mechanisms

In a calendar year that is not a rate case test year, the calculation of the RAM Revenue Adjustment for that calendar year is submitted to the Commission by March 31st. The calculation of the RAM Revenue Adjustment establishes the amount of RAM revenue that will be accrued for that calendar year. Collection of the amount of the RAM revenue will commence on June 1st of the calendar year, and will continue over 12 months through May 31st of the immediately succeeding calendar year, through the RBA Rate Adjustment. The collection of the RAM Revenue Adjustment continues outside the calendar year, and lags the accrual of the RAM Revenue Adjustment within the calendar year.

This is similar to how the accrual and collection of the Demand Side Management ("DSM") cost recovery adjustment was applied for the Hawaiian Electric Companies as it related to lost revenue margins each calendar year. Lost revenue margins were estimated and accrued in the calendar year that they were earned, and were collected over part of the current calendar year and part in the subsequent calendar year. The amount of the lost revenue margins were calculated for the calendar year and were presented in a DSM cost recovery filing made by March 31st of that calendar year. Collection of lost revenue margins for the calendar year commenced on April 1st of that calendar year and continued over 12 months through March 31st of the immediately succeeding calendar year through the DSM cost recovery adjustment. The DSM cost recovery was slightly different from the recovery of the RAM Revenue Adjustment because the lost revenue margins were estimated for the calendar year while the RAM Revenue Adjustment for the calendar year is determined. The Hawaiian Electric Companies accrued revised estimates of lost revenue margins each month of the calendar year, and accrued interest each month on the cumulative difference between the lost revenue margin accrued and the lost revenue margin collected through the DSM cost recovery adjustment, similar to how Hawaiian Electric will accrue interest in the Revenue Balancing Account each month.

In a calendar year that is a rate case test year, the calculation of the RAM Revenue Adjustment for that calendar year that is submitted to the Commission by March 31st is expected to be adjusted upon issuance of an interim decision in the rate case in that calendar year. In a rate case test year, the calculated RAM Revenue Adjustment for that calendar year will be prorated, and what will be earned and accrued, and eventually collected through the RBA rate adjustment is the prorated amount for the calendar year from January 1st to the day before the effective implementation date of the rate case interim decision.

For example, in a calendar year that is a rate case test year, the calculated RAM Revenue Adjustment for the calendar year will be filed on March 31st, and will be designed to be collected over 12 months beginning June 1st of that calendar year. If, subsequent to June 1st, a rate case interim decision is issued to be effective July 1st of that calendar year, the RAM Revenue Adjustment for the calendar year must be prorated such that only an amount from January 1st through June 30th of the calendar year will be accrued and collected. The accrual of the RAM Revenue Adjustment will be completed by June 30th of the calendar year. The collection of the RAM Revenue Adjustment, which commenced on June 1st of the calendar year, must be adjusted, through an adjustment to the RBA Revenue Adjustment, such that the remaining collection of the RAM Revenue Adjustment through May 31st of the succeeding calendar year, plus the amount of the RAM Revenue Adjustment collected prior to the effective date of the rate case interim decision, will equal the amount of the prorated RAM Revenue Adjustment for the calendar year from January 1st through June 30th. Hawaiian Electric will maintain the collection period through May 31st of the year succeeding the rate case test year for the prorated RAM Revenue Adjustment of the calendar year that is a rate case year.

For the DSM Cost Recovery, lost revenue margins were treated in a similar manner when the Commission ordered their termination in 2006. In Interim Decision and Order No. 22420, filed in the Energy Efficiency Docket, Docket No. 05-0069, the Commission ordered that "HECO's recovery of lost gross margins . . . for its DSM programs must be discontinued within thirty days of the filing of this Interim Decision and Order, until further order by the Commission." In its transmittal filed May 25, 2006, Hawaiian Electric explained that "HECO will stop recovering (i.e., stop accruing) lost revenue margins . . for its existing DSM programs as of May 26, 2006."

In the DSM cost recovery adjustment that was effective April 1, 2006, Hawaiian Electric was recovering, among other DSM program elements, an amount for 2006 lost revenue margins for the calendar year. Hawaiian Electric ceased the accrual of lost revenue margins effective May 26, 2006 in compliance with the Commission's order to discontinue the recovery of lost revenue margins. Effective May 26, 2006, Hawaiian Electric modified the DSM cost recovery adjustment that was effective April 1, 2006 by substituting the 2006 lost revenue margins accrued through May 25, 2006 for the estimated 2006 lost revenue margins for the entire calendar year in the amount to be collected through March 31, 2007, the end date for the collection period for the 2006 lost revenue margin. Hawaiian Electric maintained the collection period for the 2006 lost revenue margin, but adjusted the amount of the 2006 lost revenue margin to be recovered.

7. Consumer Advocate's Position

The Companies do not have a written explanation of the Consumer Advocate's position, and there is nothing in the record of which the Companies are aware that spells out or explains the Consumer Advocate's position. The Companies' understanding, however, is that the Consumer Advocate apparently does not view the RAM as an adjustment mechanism that necessarily allows recovery of the revenue used to calculate RAM. Rather, the Consumer Advocate views the RAM as merely setting a new rate, rather than a means to recover a certain level of revenue. Whether or not the Company recovers the intended revenue adjustment depends on whether or not the interim rate order in a test year stops the collection process.

Adoption of the Consumer Advocate's position would result in unreasonable, unfair and seriously unintended consequences.

First, there is the obvious impact in a rate case test year. A general rate increase application can be filed on July 1, using the next calendar year or a test year. The Commission's interim order is due within 10 months if a hearing has been held (or as of May 1 of the test year for an application filed on July 1 of the prior year), or within 10 months plus 30 days if a hearing has not been held (or as of May 31 of the test year for an application filed on July 1 of the prior year). Thus, in the case of a rate application filed on July 1st, the RAM for the test year would be completely nullified under the Consumer Advocate's position, since it would be stopped (May 1st or May 31st) even before it started (June 1st).

In addition, the "Commission may unilaterally discontinue the decoupling mechanism if it finds that the public interest requires such action." D&O, page 122. This power extends to both the RAM and the sales decoupling provisions.

For example, the Commission could issue an order on January 1, 2013 discontinuing decoupling. If the Consumer Advocate's position is adopted, this order would be given retroactive effect by allowing recovery of, at most, 7/12ths of the RAM revenues attributable to 2012.

Logically[17], the order would also be given retroactive effect by eliminating all recovery or refund of the sales decoupling differential attributable to 2012. The difference between actual sales revenues and revenues established in the prior rate case would be accrued in the year before a rate case test year (with interest). The rate adjustment to collect or refund (as the case may be) would not begin to collect or refund the differences until June 1st of the following year. If such a position were adopted, the issuance of the Commission's order in a rate case or to discontinue decoupling would eliminate the prior year's refund owing to ratepayers (or the additional amount owed to the Company).

Further, the Consumer Advocate's position would distort the application of the earnings sharing credit component of the RAM. Under the RAM Provision, the Earnings Sharing Revenue Credit (if any) is calculated based on the positive difference (if any) between the achieved return on average common equity ("ROE") (using the ratemaking methodology) and the authorized ROE for the Evaluation Period. The Evaluation Period is defined as the historical twelve month period ending December 31st of each calendar year preceding the Annual Evaluation Date. The Companies would compute the achieved ROE based on the accrued

[17] The Companies, however, do not know whether the Consumer Advocate's position on the RBA is the same as its position on the RAM. The Companies assume that the Consumer Advocate's positions would be consistent.

revenues from the base rates, RAM and RBA (and any other applicable rates) for the Evaluation Period. There is also a special refund provision applicable if the RAM revenue accrued in a test year (prior to an interim increase) exceeds what the utility would have collected under the new base rates ultimately set in the rate case had been in effect for that period. This provision would be irrelevant if the Consumer Advocate's proposal was accepted.

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of

PUBLIC UTILITIES COMMISSION

Docket No. 2008-0274

Instituting a Proceeding To Investigate Implementing a Decoupling Mechanism for Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc., and Maui Electric Company, Limited.

PANEL HEARING

(VOLUME III)

PUC Hearing Room

465 S. King St., Room B-3, Honolulu, Hawaii 96813

9:00 a.m.

Wednesday, July 1, 2009

BEFORE: BARBARA ACOBA, CSR No. 412, RPR

Notary Public, State of Hawaii

APPEARANCES:
Commissioners: Chairman Carlito Caliboso
Commissioner John Cole
Commissioner Leslie Kondo
HECo. Companies: Alan Hee
Thomas Williams, Esq.
Peter Kikuta, Esq.
Tayne Sekimura
Colton Ching
Patsy Nanbu
Ross Sakuda
David Waller

Haiku Design & Analysis:
Carl Freedman
Michael Champley

DBEDT: Gregg Kinkley, Esq.
Estrella Seese

Consumer Advocate: John Itomura, Esq.
Catherine Awakuni
Michael Brosch
Steve Carver
Joe Herz
Blue Planet Foundation:
Douglas Codiga, Esq.

HREA: Warren Bollmeier

HSEA: Mark Duda

CHAIRMAN CALIBOSO: Good morning. I'd like to call this proceeding back to order. This is a continuation of the Commission's investigation in Docket No. 2008-0274, decoupling. We have a tight schedule today, but Mr. Hempling's going to start off with questions from the parties to the effect or involve all of the panels that we've covered so far. Mr. Hempling.

MODERATOR: Thank you, Mr. Chairman. So if we can concisely see if there are questions causing physical agony relating to any of the prior panels, I will leave some time toward the end, if we have it, for other questions, but I do want to keep the momentum going. ECAC could take us longer than I'm hoping for. So who has questions for each other?

CHAIRMAN CALIBOSO: Mr. Hempling, I forgot to note appearances for the record.

MODERATOR: Sure.

MR. KIKUTA: Good morning Chairman Caliboso, Commissioner Cole, Commissioner Kondo, Mr. Hempling. Peter Kikuta and Tom Williams on behalf of HECo., HELCo., and MECo.

MR. FREEDMAN: Good morning. Carl Freedman on behalf of Haiku Design and Analysis.

MR. CODIGA: Good morning, Mr. Chairman and Commissioners. Doug Codiga on behalf of Blue Planet

Foundation.

MR. BOLLMEIER: Good morning, Commissioners. Warn Bollmeier on behalf of the Hawaii Renewable Energy Alliance.

MR. DUDA: Good morning, Commissioners. Mark Duda on behalf of the Hawaii Solar Energy Association.

MR. KINKLEY: Good morning, Commissioners. Gregg Kinkley, Deputy Attorney General, representing DBEDT with Estrella Seese.

MR. ITOMURA: Good morning, Chair, Commissioners. John Itomura on behalf of the Consumer Advocate. With me this morning is Consumer Advocate Cat Awakuni, administrator Dean Nishina, expert witnesses Mike Brosch, Steve Carver, and Joe Herz.

MODERATOR: Okay. Ladies and gentlemen, good morning. Who's got questions. Hands up please. Anybody else? Mr. Williams brought a whole crew in for you, Mr. Champley. Go for it.

MR. CHAMPLEY: Thank you, and good morning. The just have a couple quick questions to try to clarify, for the record, how the RAM mechanism works in the start-up period, as well as in conjunction with a rate case year. Because in talking with various parties, I get different perspectives as to how this might work and in reading the record, it's unclear to

me. So if I could direct this set of questions, and they should be very simple and separate forward, to HECo.

As I understand the material that was submitted relative to RAM, it utilizes a calendar year RAM period. And I'm gonna keep going unless -- if I'm wrong, just please, you know, let me know so that way we can move through a little bit quicker. But the assumption in the definition of the RAM period is it's a calendar year period.

MR. HEE: Correct.

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

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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

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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 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 HECo. 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

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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 HECo. 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.
MR. CHAMPLEY: So I guess I'm still confused as to Mr. Hee's response that they would reflect this RAM as if it occurred for the entire calendar year 2010.
MODERATOR: How much more of this type of

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question do you have?
MR. CHAMPLEY: Well, I thought we'd be done now.
MODERATOR: I'm not expressing impatience. I'm just asking for information.
MR. CHAMPLEY: I just wanted to get clarification.
MODERATOR: How much more of this do we have?
MR. CHAMPLEY: This is essentially it.
MODERATOR: You've got it. Would it be quicker to -- if you have an answer now, fine, otherwise you think you guys could talk about it off the record?
MR. HEE: The answer is, on a cash basis, we can only recover it beginning June 1. For reporting on an accounting basis for the year, once the Commission approves that on June 1, we're able to report that revenue for that calendar year. The entirety of that RAM adjustment in that year.
This issue about regulatory asset, I believe, has to do with the fact that regulatory assets can only be booked once the Commission has approved something to be recovered. So, but if on June 1 we do get that approval for the RAM adjustment, it would be booked on accounting basis for that year.
MR. CHAMPLEY: So one final follow up, then.

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With respect to the sales decoupling and looking at what the target revenues are versus the actual revenues to determine via monthly what the over/under recovery is, would it be HECo.'s position that the way the RAM would work in conjunction with the RBA and decoupling, that the target revenues would be retroactively adjusted up on January 1st?

MR. HEE: The RBA will be bucketing the difference between the monthly target revenues and the monthly actual billed revenues and that will be identified for each of the months beginning with January 1. Just a second.

MODERATOR: While you're talking about this, Mr. Champley, what's the policy implications for the Commission in this line of questions?

MR. CHAMPLEY: It's very simple. You know, HECo. has a real need to improve their financial health, and I respect that and would welcome the opportunity that they can improve. The importance of this is really ascertaining, if you will, the various benefits to be derived by the utility versus the customer interest here, and what some of the parties have suggested that there's a significant imbalance between what the customers could derive here versus what the utility could derive and trying to ascertain what benefits the

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utility would receive, it's very important to understand whether the -- if there's regulatory lag, if you will, built in within the RAM or not. So that was the reason for this line of questioning.

MODERATOR: Be helpful when you make your closing statement or file whatever briefs are allowed afterwards, that you explain this real clearly so the Commission understands it.

MR. CHAMPLEY: I'll do so.

MODERATOR: Okay. Anything else. Are you waiting for another answer? Gentlemen? Ladies? Anything else on this? Is that it?

MR. CHAMPLEY: Yeah. I'm sorry, I'm finished.

MODERATOR: Mr. Hee, do you have something left?

MR. HEE: No.

MODERATOR: Anything else? Yes, sir.

MR. BROSCH: I'm of the understanding that I owe the bench a couple answers from yesterday. If this is the appropriate time to provide those answers, I'd be happy to.

MODERATOR: Okay.

MR. BROSCH: First of all, Commissioner Kondo asked if I could list any additional benefits to rate payers from decoupling beyond the three items that I

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mentioned yesterday. And I wanted to add two items to my list from yesterday.

One is, there is potentially lower price path for consumers, the rates to be paid in the future. If, in the future, HECo. company's sales actually increase rather than the recent declines, which is following up on the point Mr. Matsunaga made yesterday I think in reference to expectations regarding MECo., and you can see some of that turnaround in the out years anticipated in the company's IR-14 responses. So if that were to materialize, there could be some consumer benefit from the tracking and accounting for that sales, a resumption in growth.

MODERATOR: Again, that consumer benefit would be the benefit associated with -- would be the benefit that occurs just between rate cases. It wouldn't be a permanent benefit.

MR. BROSCH: It would be a permanent benefit in the sense that the revenue balancing account would begin to observe actual revenues growing in relation to target revenues. And potentially exceeding target revenues given substantial growth.

MODERATOR: Right. But if the comparison is between a decoupling scenario and no decoupling but normal rate case scenario, the benefit you're talking

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about is a between rate case temporary benefit, correct?

MR. BROSCH: I would characterize it as a permanent benefit because in the absence of decoupling, if sales increase between traditional rate cases, those increases are retained for shareholders, whereas with the revenue balancing account, they are not.

COMMISSIONER KONDO: Mr. Hempling's point, I think is, when you have the rate case, you now true up. So any benefit is now, there is no benefit once the rate case occurs.

MODERATOR: The rate case does not eliminate the benefit going backwards; it just eliminates it going forward.

MR. BROSCH: That's correct. The rate case would capture that growth, but it wouldn't capture it until we had that rate case to recognize it.

COMMISSIONER KONDO: Correct. I think that's what Mr. Hempling's point was.

MODERATOR: All right. We got it. Just want to make sure. Go ahead, please.

MR. BROSCH: And the other point is, there is the potential for a modestly increased efficiency incentives if every year or every other year in our future is not a traditional rate case test year, just by virtue of the fact the longer the intervals between rate

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

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

July 13, 2009

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.

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 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

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[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.

ILLUSTRATION OF THE REVENUE BALANCING ACCOUNT AND RATE ADJUSTMENT MECHANISM PROVISIONS

(as of April 20, 2011)

The following discussion and attached spreadsheet, are provided to illustrate the required journal entries the Company will record to account for the Revenue Balancing Account ("RBA") and the Rate Adjustment Mechanism ("RAM") provisions as approved by the Commission in the Company's Decoupling Proceeding (Docket No. 2008-0274). Sample March 2011, June 2011, July 2011, March 2012 and June 2012 journal entries below are referenced from the attached "Illustration of Proposed Decoupling Entries – With RAM catch-up Accrual Beginning RAM Tariff Effective and Interim D&O" spreadsheet.

RBA IMPLEMENTATION

Upon initial implementation of the RBA and thereafter, the following manual journal entries will be recorded on a monthly basis: 1) the difference between the target and adjusted recorded revenues; 2) interest on RBA balances; and 3) adjustments to offset RBA revenues previously recognized. The adjustments are discussed in further detail below.

<u>Target and Adjusted Recorded Revenues Differences</u>
When the monthly adjusted recorded revenues are in excess of the monthly target revenues, it will result in an over-recognition/collections of allowed revenues which are adjusted by recording the following manual journal entry:

JE A_1 Dr. Unbilled revenues (various #s by rate schedule) (Revenue accounts/Income statement)
Cr. Revenue Balancing Account (# 18670198) (Balance sheet)

The reverse of the above journal entry will be recorded when adjusted recorded revenues are below the target revenues resulting in an under-recognition/collection of allowed revenues:

JE A_2 Dr. Revenue Balancing Account (# 18670198) (Balance sheet)
Cr. Unbilled revenues (various #s by rate schedule) (Revenue accounts/income statement)

<u>RBA Interest</u>
Monthly interest income on the RBA will be calculated by applying a monthly .5% interest rate (based on an annual 6% interest rate) to the simple average of the beginning and ending of the month RBA. If the simple average results in an over-recognition/collection amount, then the following manual journal entry will be recorded:

JE B_1 Dr. Interest expense (# 43109000) (Expense account/Income statement)
Cr. Revenue Balancing Account (# 18670198) (Balance sheet)

The reverse of the above journal entry will be recorded when the simple average results in an under-recognition/collection amount:

JE B_2 Dr. Revenue Balancing Account (# 18670198) (Balance sheet)
Cr. Interest income (# 41900002) (Income account/Income statement)

<u>RBA Adjustment – Reversal of Previously Accrued RBA Revenues</u>
The RBA balance as of December 31 will be recovered from customers over 12-months beginning June 1, of the following year. The recovered amounts will be recorded as electric revenues during the 12-month period as customers are billed (entry automatically recorded by the Company's ACCESS system):

ILLUSTRATION OF THE REVENUE BALANCING ACCOUNT AND RATE ADJUSTMENT MECHANISM PROVISIONS

(as of April 20, 2011)

JE C_1 Dr. Customer accounts receivable (#14200000) (Balance sheet)
Cr. Electric revenues (various #s by rate schedule) (Revenue accounts/income statement)

However, the revenues related to the December 31 RBA balance has already been recognized in the previous year (JEs A_1 and A_2). Therefore, to avoid double-counting the RBA revenues when JE C_1 is recorded, the following manual journal entry will be recorded on a monthly basis over a 12-month period beginning June 1 of the following year:

JE C_2 Dr. Unbilled revenues (various #s by rate schedule) (Revenue accounts/income statement)
Cr. Revenue Balancing Account (# 18670198) (Balance sheet)
For simplistic purposes, one-twelfth of the December 31 RBA balance will be recorded rather than estimating the actual RBA revenues or costs associated with the recovery or payback of the December 31 RBA balance.

The above entry is based on a debit balance in the RBA account as of December 31. The reverse of the above journal entry will be recorded if there is a credit balance in the RBA account as of December 31:

JE C_3 Dr. Revenue Balancing Account (# 18670198) (Balance sheet)
Cr. Unbilled revenues (various #s by rate schedule) (Revenue accounts/income statement)

RAM IMPLEMENTATION

Upon initial implementation of the RAM and thereafter, the following journal entries will be recorded on a monthly basis: 1) accruals for RAM amounts earned during the year; and 2) adjustments to offset current month's RAM revenues previously recognized. The adjustments are discussed in further detail below.

RAM Accruals

Subsequent to the effectiveness of the tariff which incorporate the annual RAM, the Company will accrue RAM revenues on a monthly basis. In the initial month of establishing a RAM, an accrual will be recorded to recognize RAM revenues earned (based on a pro-ration over the amount of months the RAM is effective during the year) for the months prior to the tariff being effective. Thereafter, monthly RAM accruals will be recorded as earned through the end of the year[1]. This will result in the Company recognizing the total annual RAM revenues in the proper period the RAM pertains to. The following journal entry will be used.

JE D_1 Dr. RAM regulatory asset account (# 18670199) (Balance sheet)
Cr. Unbilled revenues (various #s by rate schedule) (Revenue accounts/income statement)

RAM Revenue Adjustment

[1] RAM accruals for the year will stop subsequent to the issuance of an interim or final decision and order since subsequent earned RAM amounts will be included in base rates. However, uncollected RAM amounts earned prior to the issuance of an interim or final decision and order will continue to be collected to the extent not in base rates. In the first year, the Company will consider the effectiveness of the tariff when the tariff is effective. In subsequent years, the probability of the RAM becoming effective when the tariff is submitted may allow the accrual of the revenues earned from the time of tariff filing.

ILLUSTRATION OF THE REVENUE BALANCING ACCOUNT AND RATE ADJUSTMENT MECHANISM PROVISIONS

(as of April 20, 2011)

The Company will be accruing and recognizing RAM revenues in the year it pertains to (see RAM Accruals discussion above). However, the collections/recoveries of the total RAM from ratepayers will be over a 12-month period, beginning June 1 to May 31 as follows (entry automatically recorded by the Company's ACCESS system):

JE E_1 Dr. Customer accounts receivable (#14200000) (Balance sheet)
Cr. Electric revenues (various #s by rate schedule) (Revenue accounts/income statement)

Therefore, to avoid double-counting previously recognized RAM revenues (RAM accrual above), the following manual journal entry will be recorded on a monthly basis over a 12-month period beginning June 1 to offset the month's recorded RAM revenues.

JE E_2 Dr. Unbilled revenues (various #s by rate schedule) (Revenue accounts/income statement)
Cr. RAM regulatory asset account (# 18670199) (Balance sheet)

SAMPLE JOURNAL ENTRIES

The sample March 2011, June 2011, July 2011, March 2012 and June 2012 journal entries below are referenced from the attached "Illustration of Proposed Decoupling Entries – With RAM Catch-up Accrual Beginning RAM Tariff Effective and Interim D&O" spreadsheet.

March 2011
The spreadsheet assumes the Company implemented a RBA provision in March 2011. As shown on the attached illustration, the following journal entries would be recorded for March 2011 business:

JE #1

Dr.	Revenue Balancing Account	$50,000
Cr.	Unbilled revenues (Revenue account)	$50,000

The $50,000 is the difference (under-collection) between the target revenues for the month of $1,000,000 and the adjusted recorded revenues of $950,000.

JE #2

Dr.	Revenue Balancing Account	$125
Cr.	Interest income	$125

The $125 is calculated as follows: 6% annual interest rate ÷ 12 months x $25,000 (simple average of the beginning RBA balance of $0 and ending RBA balance of $50,000).

June 2011
The following journal entries would be recorded for June 2011.

JE #3

Dr.	Unbilled revenues (Revenue account)	$10,000
Cr.	Revenue Balancing Account	$10,000

ILLUSTRATION OF THE REVENUE BALANCING ACCOUNT AND RATE ADJUSTMENT MECHANISM PROVISIONS

(as of April 20, 2011)

The $10,000 is the difference (over-collection) between the target revenues for the month of $1,020,833 and the adjusted recorded revenues of $1,030,833.

JE #4

Dr.	Revenue Balancing Account	$329
Cr.	Interest income	$329

The $329 is calculated as follows: 6% annual interest rate ÷ 12 months x $65,803 (simple average of the beginning RBA balance of $70,803 and ending RBA balance of $60,803).

In addition to the journal entries above, the spreadsheet assumes the Company's tariffs, reflecting the 2011 RAM provision, became effective in June 2011. As shown on the attached illustration, the additional RAM journal entries would be recorded for June 2011 business:

JE #5

Dr.	RAM regulatory asset account	$100,000
Cr.	Unbilled revenues (Revenue account)	$100,000

The $100,000 is comprised of a catch-up accrual (March 2011 to May 2011) and June 2011's accrual. Calculated as follows: 2011 RAM of $300,000 ÷ 12 months x 4 months (March 2011 to June 2011). Note, the actual calculation will be based on the number of days in the month to the number of days in the year.

Dr.	Customer accounts receivable	$20,833
Cr.	Electric revenues (Revenue accounts)	$20,833

June 2011's RAM revenues entry is automatically recorded by the Company's ACCESS system. Assumed the 2011 RAM collected evenly over 12-month period ($250,000, which exclude Jan/Feb accruals ÷ 12 months).

JE #6

Dr.	Unbilled revenues (Revenue account)	$20,833
Cr.	RAM regulatory asset account	$20,833

June 2011's RAM revenues recorded by ACCESS need to be offset against the RAM accruals made in the above entry to avoid double-counting of RAM revenues.

July 2011

The following journal entries will be recorded in July 2011:

JE #7

Dr.	Revenue Balancing Account	$15,000
Cr.	Unbilled revenues (Revenue account)	$15,000

The $15,000 is the difference (under-collection) between the target revenues for the month of $1,020,833 and the adjusted recorded revenues of $1,005,833.

JE #8

Dr.	Revenue Balancing Account	$343

ILLUSTRATION OF THE REVENUE BALANCING ACCOUNT AND RATE ADJUSTMENT MECHANISM PROVISIONS

(as of April 20, 2011)

Cr. Interest income $343

The $343 is calculated as follows: 6% annual interest rate ÷ 12 months x $68,632 (simple average of the beginning RBA balance of $61,132 and ending RBA balance of $76,132).

Also, the spreadsheet assumes on July 1, 2011, the Company received an interim decision and order and implemented new tariffs. As such, a RAM accrual entry (similar to JE #5 above) is not necessary. Refer to footnote 1 for more information. However, the uncollected RAM regulatory amount of $79,167 as of June 30, 2011 will continue to be collected, to the extent not in base rates. As such, the following journal entry will be recorded monthly through May 2012, to avoid double-counting RAM revenues previously recognized.

Dr. Customer accounts receivable $7,197
Cr. Electric revenues (Revenue accounts) $7,197

July 2011's recovery of the unrecovered RAM regulatory asset as of June 30, 2011, is automatically recorded by the Company's ACCESS system. Assumed the unrecovered RAM regulatory asset is collected evenly over the remaining 12-month period ($79,167 ÷ 11 months).

JE #9
Dr. Unbilled revenues (Revenue account) $7,197
Cr. RAM regulatory asset account $7,197

July 2011's recovery of the unrecovered RAM regulatory asset revenues recorded by ACCESS need to be offset against the RAM accrual (JE #5) made in the above entry to avoid double-counting of RAM revenues.

March 2012

The following journal entries will be recorded in March 2012:

JE #10
Dr. Revenue Balancing Account $55,000
Cr. Unbilled revenues (Revenue account) $55,000

The $55,000 is the difference (under-collection) between the target revenues for the month of $1,020,833 and the adjusted recorded revenues of $965,833.

JE #11
Dr. Revenue Balancing Account $2,194
Cr. Interest income $2,194

The $2,194 is calculated as follows: 6% annual interest rate ÷ 12 months x $438,702 (simple average of the beginning RBA balance of $411,202 and ending RBA balance of $466,202).

Dr. Customer accounts receivable $7,197
Cr. Electric revenues (Revenue accounts) $7,197

The recovery of the unrecovered RAM regulatory asset as of June 30, 2011, is automatically recorded by the Company's ACCESS system. Assumed the

ILLUSTRATION OF THE REVENUE BALANCING ACCOUNT AND RATE ADJUSTMENT MECHANISM PROVISIONS

(as of April 20, 2011)

unrecovered RAM regulatory asset is collected evenly over the remaining 12-month period ($79,167 ÷ 11 months).

JE #12

Dr.	Unbilled revenues (Revenue account)	$7,197
Cr.	RAM regulatory asset account	$7,197

March 2012's recovery of the unrecovered RAM regulatory asset revenues recorded by ACCESS need to be offset against the RAM accrual (JE #5) made in the above entry to avoid double-counting of RAM revenues.

As previously discussed in footnote 1 above, the probability of the RAM becoming effective when the tariff is submitted may allow the accrual of the RAM revenues earned from the time of tariff filing. Therefore, the following journal entry will be recorded in March 2012:

JE #13

Dr.	RAM regulatory asset account	$125,000
Cr.	Unbilled revenues (Revenue account)	$125,000

The $125,000 RAM accrual is calculated as follows: 2012 RAM of $500,000 ÷ 12 months x 3 months (January 2012 to March 2012). Note, the actual calculation will be based on the number of days in the month to the number of days it the year.

June 2012

The following RBA journal entries would be recorded for June 2012.

JE #14

Dr.	Revenue Balancing Account	$25,000
Cr.	Unbilled revenues (Revenue account)	$25,000

The $25,000 is the difference (under-collection) between the target revenues of $1,066,667 and the adjusted recorded revenues of $1,041,667.

JE #15

Dr.	Revenue Balancing Account	$2,959
Cr.	Interest income	$2,959

The $2,959 is calculated as follows: 6% annual interest rate ÷ 12 months x $591,722 (simple average of the beginning RBA balance of $593,491 and ending RBA balance of $589,953).

Dr.	Customer accounts receivable	$28,538
Cr.	Electric revenues (Revenue accounts)	$28,538

The RBA balance as of December 31, 2011 amounted to $342,456 and will be recovered over a 12-month period beginning June 1. June 2012's RBA recovered revenues is automatically recorded by the Company's ACCESS system.

JE #16

Dr.	Unbilled revenues (Revenue account)	$28,538
Cr.	Revenue Balancing Account	$28,538

ILLUSTRATION OF THE REVENUE BALANCING ACCOUNT AND RATE ADJUSTMENT MECHANISM PROVISIONS

(as of April 20, 2011)

The RBA balance as of December 31, 2011 amounted to $342,456 and will be recovered over a 12-month period beginning June 1. Since the revenues related to this RBA balance have previously been recognized, one-twelfth of the December 31, 2011 balance will be used to offset against the June 2012 RBA revenues (ACCESS entry above) to avoid double-counting of RBA revenues.

In addition to the RBA journal entries above, the following RAM journal entries would be recorded for June 2012:

<u>JE #17</u>

Dr.	RAM regulatory asset account	$41,667
Cr.	Unbilled revenues (Revenue account)	$41,667

The $41,667 is calculated as follows: 2012 RAM of $500,000 ÷ 12 months.

Dr.	Customer accounts receivable	$41,667
Cr.	Electric revenues (Revenue accounts)	$41,667

June 2012's RAM revenues entry is automatically recorded by the Company's ACCESS system.

<u>JE #18</u>

Dr.	Unbilled revenues (Revenue account)	$41,667
Cr.	RAM regulatory asset account	$41,667

June 2012's RAM revenues recorded by ACCESS need to be offset to avoid double-counting of RAM revenues.

HAWAIIAN ELECTRIC COMPANY, INC.
ILLUSTRATION OF PROPOSED DECOUPLING ENTRIES - WITH RAM CATCH-UP ACCRUAL BEGINNING RAM TARIFF EFFECTIVE AND INTERIM D&O

Note: Refer to the attached narrative which discusses the required journal entries in the illustration below.

Assumptions:		
Interest	6%	
Target RBA Monthly Revenues	1,000,000	(March 2011 - May 2011)
Target RBA Monthly Revenues	1,020,833	(June 2011 - May 2012)
Target RBA Monthly Revenues	1,066,667	(June 2012 - May 2013)
2011 RAM	300,000	($250,000 from March 2011 - December 2011)
2012 RAM	500,000	(January 2012 - December 2012)
Implement RBA	March 1, 2011	
Implement RAM tariff	June 1, 2011	
Actual RBA/RAM Revs	See below	
2011 TY Rate Case ID&O	July 1, 2011	

Month	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
TRACKER:													
Target	1,000,000	1,000,000	1,000,000	1,020,833	1,020,833	1,020,833	1,020,833	1,020,833	1,020,833	1,020,833	1,020,833	1,020,833	1,020,833
Actual - Tracker	950,000	975,000	1,005,000	1,010,000	998,636	938,637	988,636	888,637	963,635	1,028,637	983,636	978,637	958,636
Actual - RAM				20,833	7,197	7,197	7,197	7,197	7,197	7,197	7,197	7,197	7,197
Actual - Total	950,000	975,000	1,005,000	1,030,833	1,005,833	945,834	995,833	895,834	970,832	1,035,834	990,833	985,834	965,833
RBA REGULATORY ASSET:													
Beg RBA Reg Asset	-	50,125	75,438	70,803	61,132	76,475	152,045	177,868	304,069	355,715	342,456	374,243	411,202
Target vs Actuals	50,000	25,000	(5,000)	(10,000)	15,000	74,999	25,000	124,999	50,001	(15,001)	30,000	34,999	55,000
Reversal of Prev Accrued	-	-	-	-	-	-	-	-	-	-	-	-	-
RBA subject to interest	50,000	75,125	70,438	60,803	76,132	151,475	177,045	302,867	354,070	340,715	372,456	409,243	466,202
Avg RBA (Beg&Subtotal)	25,000	62,625	72,938	65,803	68,632	113,975	164,545	240,367	329,069	348,215	357,456	391,743	438,702
Interest	125	313	365	329	343	570	823	1,202	1,645	1,741	1,787	1,959	2,194
Ending RBA Reg Asset	50,125	75,438	70,803	61,132	76,475	152,045	177,868	304,069	355,715	342,456	374,243	411,202	468,395
RAM REGULATORY ASSET:													
Beg RAM Reg Asset	-	-	-	-	79,167	71,970	64,773	57,576	50,379	43,182	35,985	28,788	21,591
Accrued RAM	-	-	-	100,000	-	-	-	-	-	-	-	-	125,000
RAM Rev Adj (Monthly Rev)	-	-	-	(20,833)	(7,197)	(7,197)	(7,197)	(7,197)	(7,197)	(7,197)	(7,197)	(7,197)	(7,197)
Ending RAM Reg Asset	-	-	-	79,167	71,970	64,773	57,576	50,379	43,182	35,985	28,788	21,591	139,394

Month	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13
TRACKER:														
Target	1,020,833	1,020,833	1,066,667	1,066,667	1,066,667	1,066,667	1,066,667	1,066,667	1,066,667	1,066,667	1,066,667	1,066,667	1,066,667	1,066,667
Actual - Tracker	993,637	913,636	1,000,000	1,005,000	1,010,000	1,015,000	1,015,000	1,030,000	1,040,000	1,020,000	1,015,000	1,020,000	1,010,000	1,000,000
Actual - RAM	7,197	7,197	41,667	41,667	41,667	41,667	41,667	41,667	41,667	41,667	41,667	41,667	41,667	41,667
Actual - Total	1,000,834	920,833	1,041,667	1,046,667	1,051,667	1,056,667	1,056,667	1,071,667	1,081,667	1,061,667	1,056,667	1,061,667	1,051,667	1,041,667
RBA REGULATORY ASSET:														
Beg RBA Reg Asset	468,395	490,787	593,491	592,912	587,317	576,682	560,981	545,201	514,305	473,230	451,999	435,675	414,257	402,756
Target vs Actuals	19,999	100,000	25,000	20,000	15,000	10,000	10,000	(5,000)	(15,000)	5,000	10,000	5,000	15,000	25,000
Reversal of Prev Accrued	-	-	(28,538)	(28,538)	(28,538)	(28,538)	(28,538)	(28,538)	(28,538)	(28,538)	(28,538)	(28,538)	(28,538)	(28,538)
RBA subject to interest	488,395	590,787	589,953	584,374	573,779	558,144	542,443	511,663	470,767	449,692	433,461	412,137	400,719	399,218
Avg RBA (Beg&Subtotal)	478,395	540,787	591,722	588,643	580,548	567,413	551,712	528,432	492,536	461,461	442,730	423,906	407,488	400,987
Interest	2,392	2,704	2,959	2,943	2,903	2,837	2,759	2,642	2,463	2,307	2,214	2,120	2,037	2,005
Ending RBA Reg Asset	490,787	593,491	592,912	587,317	576,682	560,981	545,201	514,305	473,230	451,999	435,675	414,257	402,756	401,223
RAM REGULATORY ASSET:														
Beg RAM Reg Asset	139,394	173,863	208,333	208,333	208,333	208,333	208,333	208,333	208,333	208,333	166,666	125,000	83,333	41,666
Accrued RAM	41,667	41,667	41,667	41,667	41,667	41,667	41,667	41,667	41,667					
RAM Rev Adj (Monthly Rev)	(7,197)	(7,197)	(41,667)	(41,667)	(41,667)	(41,667)	(41,667)	(41,667)	(41,667)	(41,667)	(41,667)	(41,667)	(41,667)	(41,667)
Ending RAM Reg Asset	173,863	208,333	208,333	208,333	208,333	208,333	208,333	208,333	208,333	166,666	125,000	83,333	41,666	(0)

EXHIBIT 4
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SUMMARIZED JO[illegible] ENTRIES:

Note: Refer to the attached narrative which discusses the required journal entries in the illustration below for March 2011, June 2011, July 2011, March 2012 and June 2012.

	JE Ref - See Narrative	Revenues Debit	Revenues Credit	Revenues Accum Total	Interest Debit	Interest Credit	Interest Accum Total	Regulatory Asset - RBA Debit	Regulatory Asset - RBA Credit	Regulatory Asset - RBA Accum Total	Regulatory Asset - RAM Debit	Regulatory Asset - RAM Credit	Regulatory Asset - RAM Accum Total	ck
Detailed March 2011 JEs (Implement RBA Provision):														
Target vs Actual	JE #1		(50,000)	(50,000)			-	50,000		50,000			-	-
RBA Interest	JE #2			(50,000)		(125)	(125)	125		50,125			-	-
Apr 2011 Summarized Entries			(25,000)	(75,000)		(313)	(438)	25,313		75,438			-	-
May 2011 Summarized Entries		5,000		(70,000)		(365)	(803)	365	(5,000)	70,803			-	-
Detailed June 2011 JEs (Implement Tariffs Reflecting 2011 RAM Provision):														
Target vs Actual	JE #3	10,000		(60,000)			(803)		(10,000)	60,803			-	-
RBA Interest	JE #4			(60,000)		(329)	(1,132)	329		61,132			-	-
RAM Accrual	JE #5		(100,000)	(160,000)			(1,132)			61,132	100,000		100,000	-
RAM Revenue Adjustment	JE #6	20,833		(139,167)			(1,132)			61,132		(20,833)	79,167	-
Detailed July 2011 JEs (Implement Tariffs of Interim D&O):														
Target vs Actual	JE #7		(15,000)	(154,167)			(1,132)	15,000		76,132			79,167	
RBA Interest	JE #8			(154,167)		(343)	(1,475)	343		76,475			79,167	
RAM Revenue Adjustment	JE #9	7,197		(146,970)			(1,475)			76,475		(7,197)	71,970	
Aug 2011 Summarized Entries		7,197	(74,999)	(214,772)		(570)	(2,045)	75,569		152,045	-	(7,197)	64,773	-
Sep 2011 Summarized Entries		7,197	(25,000)	(232,576)		(823)	(2,868)	25,823		177,868	-	(7,197)	57,576	-
Oct 2011 Summarized Entries		7,197	(124,999)	(350,378)		(1,202)	(4,069)	126,201		304,069	-	(7,197)	50,379	-
Nov 2011 Summarized Entries		7,197	(50,001)	(393,182)		(1,645)	(5,715)	51,647		355,715	-	(7,197)	43,182	-
Dec 2011 Summarized Entries		22,198	-	(370,985)		(1,741)	(7,456)	1,741	(15,001)	342,456	-	(7,197)	35,985	-
Jan 2012 Summarized Entries		7,197	(30,000)	(22,803)		(1,787)	(1,787)	31,788		374,243		(7,197)	28,788	-
Feb 2012 Summarized Entries		7,197	(34,999)	(50,606)		(1,959)	(3,746)	36,958		411,202		(7,197)	21,591	-
Detailed March 2012 JEs (File Tariffs Reflecting 2012 RAM Provision):														
Target vs Actual	JE #10		(55,000)	(105,606)			(3,746)	55,000		466,202			21,591	
RBA Interest	JE #11			(105,606)		(2,194)	(5,940)	2,194		468,395			21,591	
RAM Revenue Adjustment	JE #12	7,197		(98,409)			(5,940)			468,395		(7,197)	14,394	
RAM Accrual	JE #13		(125,000)	(223,409)			(5,940)			468,395	125,000		139,394	
Apr 2012 Summarized Entries		7,197	(61,666)	(277,878)		(2,392)	(8,331)	22,391		490,787	41,667	(7,197)	173,863	(0)
May 2012 Summarized Entries		7,197	(141,667)	(412,348)		(2,704)	(11,035)	102,704		593,491	41,667	(7,197)	208,333	0
Detailed June 2012 JEs (Implement Tariffs Reflecting 2012 RAM Provision):														
Target vs Actual	JE #14		(25,000)	(437,348)			(11,035)	25,000		618,491			208,333	-
RBA Interest	JE #15			(437,348)		(2,959)	(13,994)	2,959		621,450			208,333	-
RBA Revenue Adjustment	JE #16	28,538		(408,810)			(13,994)		(28,538)	592,912			208,333	-
RAM Accrual	JE #17		(41,667)	(450,477)			(13,994)			592,912	41,667		250,000	-
RAM Rev Adj (Accruals)	JE #18	41,667		(408,810)			(13,994)			592,912		(41,667)	208,333	-
Jul 2012 Summarized Entries		70,205	(61,667)	(400,272)		(2,943)	(16,937)	22,943	(28,538)	587,317	41,667	(41,667)	208,333	-
Aug 2012 Summarized Entries		70,205	(56,667)	(386,734)		(2,903)	(19,840)	17,903	(28,538)	576,682	41,667	(41,667)	208,333	-
Sep 2012 Summarized Entries		70,205	(51,667)	(368,196)		(2,837)	(22,677)	12,837	(28,538)	560,981	41,667	(41,667)	208,333	-
Oct 2012 Summarized Entries		70,205	(51,667)	(349,658)		(2,759)	(25,436)	12,759	(28,538)	545,201	41,667	(41,667)	208,333	-
Nov 2012 Summarized Entries		75,205	(41,667)	(316,120)		(2,642)	(28,078)	2,642	(33,538)	514,305	41,667	(41,667)	208,333	-
Dec 2012 Summarized Entries		85,205	(41,667)	(272,582)		(2,463)	(30,540)	2,463	(43,538)	473,230	41,667	(41,667)	208,333	-
Jan 2013 Summarized Entries		70,205	(5,000)	65,205		(2,307)	(2,307)	7,307	(28,538)	451,999		(41,667)	166,666	-
Feb 2013 Summarized Entries		70,205	(10,000)	125,409		(2,214)	(4,521)	12,214	(28,538)	435,675		(41,667)	125,000	-
Mar 2013 Summarized Entries		70,205	(5,000)	190,614		(2,120)	(6,640)	7,120	(28,538)	414,257		(41,667)	83,333	-
Apr 2013 Summarized Entries		70,205	(15,000)	245,819		(2,037)	(8,678)	17,037	(28,538)	402,756		(41,667)	41,666	-
May 2013 Summarized Entries		70,205	(25,000)	291,023		(2,005)	(10,683)	27,005	(28,538)	401,223		(41,667)	(0)	-

HAWAIIAN ELECTRIC COMPANY, INC.
MONTHLY FINANCIAL REPORT
June 2012
ILLUSTRATION PURPOSES ONLY

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF HAWAII
COMPARATIVE BALANCE SHEET
ASSETS AND OTHER DEBITS (CONTD)

* The "Regulatory Assets, net" amount of $__________ includes:

Opeb	XXXX
Vacation liability not yet taken	XXXX
Unamortized debt expenses & inv inc differential	XXXX
Regulatory asset established under SFAS No. 109	XXXX
Pension tracking	XXXX
Opeb tracking	XXXX
RBA-Revenue Tracker (see pg. 9A for detail)	592,912
RBA-Rate Adj Mechanism (see pg. 9B for detail)	208,333
DSM costs	XXXX
RO Pipeline costs	XXXX
Other	XXXX

HAWAIIAN ELECTRIC COMPANY, INC.
MONTHLY FINANCIAL REPORT
ILLUSTRATION PURPOSES ONLY

REVENUE BALANCING ACCOUNT - REVENUE TRACKER

			Jun-12	
L1		Monthly Target Revenue	$1,066,667	
L2		Recorded Adjusted Revenue	$1,041,667	
L3	L1 + L2	Target vs. Actual Revenue	$25,000	(JE #14 in narrative)
L4		Reversal of Prior Year December 31 Accrual *	($28,538)	(JE #16 in narrative)
L5	L4 + L3	Net RBA Change	($3,538)	
L6		Beginning RBA Balance	$593,491	
L7	L6 + L5	End Balance Before Interest	$589,953	
L8	(L6 + L7) ÷ 2	Balance Subject to Interest	$591,722	
L9	L8 x 6% ÷ 12	Interest	$2,959	(JE #8 in narrative)
L10	L7 + L9	Ending RBA Balance	$592,912	

* Prior year accrual was, $342,456, monthly reversal is $28,538

HAWAIIAN ELECTRIC COMPANY, INC.
MONTHLY FINANCIAL REPORT
ILLUSTRATION PURPOSES ONLY

RAM - REGULATORY ASSET

			Jun-12	
L1		Beginning RAM Balance	$208,333	
L2		RAM Revenue Target Accrual [1]	$41,667	(JE #17 in narrative)
L3		RAM Rev Adj (Monthly revenue)	($41,667)	(JE #18 in narrative)
L4	L1 + L2 + L3	Ending RAM Balance	$208,333	

[1] 2012 RAM = $500,000. Accrual for June 2012 RAM earned ($500,000 / 12months).

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EXHIBIT 5
PAGE 1 OF 2

PUC-IR-14
DOCKET NO. 2008-0274
ATTACHMENT 1
PAGE 1 OF 12
(REVISED 6/25/09)

1	Sheet 1 - HECO (Figures in $1,000's)	A	B	C	D	E	F	G	H	I	J	K	L
2	Case with RAM and sales decoupling						Rate Case	RAM	Rate Case	RAM	RAM	RAM	
3		2004	2005	2008	2007	2008	2009	2010	[redacted]			2014	Notes
4	Net Revenues without proposed decoupling	$ 355,309	$ 362,727	$ 394,722	$ 387,229	$ 459,102	$ 474,945	$ 527,404				na	1
5													
6	Change Analysis from preceding year											na	
7	Change caused by change in rates (rate case)	NA	$ 13,322	$ 39,966	$ 11,667	$ 39,833	$ 39,906	$ 46,873				na	
7a	Balancing entry		$ (5,287)	$ (8,616)	$ (17,914)	$ 39,424	$ (19,408)	$ 7,313				na	
8	Change caused by average usage changes	NA	$ (4,056)	$ (4,579)	$ (2,906)	$ (8,017)	$ (7,592)	$ (4,369)				na	
9	Change caused by changes in # of customers	NA	$ 3,439	$ 3,224	$ 1,661	$ 633	$ 2,937	$ 2,642				na	
10	Total Change in Revenues	NA	$ 7,418	$ 31,995	$ (7,493)	$ 71,873	$ 15,843	$ 52,459				na	
11	# of customers (000s)	287	290	293	294	294	296	298				na	
12													
13	Total Expenses without RAM	$ 279,909	$ 293,183	$ 317,163	$ 330,076	$ 378,107	$ 391,666	$ 428,007				na	
14													
15	Change analysis from preceding year	NA											
16	Change caused by inflation	NA										na	
17	Change caused by changes in productivity	NA										na	
18	Change caused by exogenous factors	NA					NA	NA				NA	
19	Carrying costs based upon net used and useful plant net of return on equity but including income taxes	NA										na	
20	Total Change in Expenses	NA	$ 13,274	$ 23,980	$ 12,913	$ 46,031	$ 15,559	$ 36,341				na	
21													
22	Earnings without RAM	$ 75,400	$ 69,544	$ 77,559	$ 57,153	$ 82,995	$ 83,279	$ 99,397				na	
23	Authorized earnings per rate case ~~plus RAM earnings~~	$ 96,932	$ 97,131	$ 99,137	$ 100,650	$ 101,980	$ 105,870	$ 123,418				na	
24	Earnings surplus or shortfall	$ (21,532)	$ (27,587)	$ (21,578)	$ (43,497)	$ (18,985)	$ (22,591)	$ (24,021)				na	
25													
26	REIS revenue additions	NA	NA	NA	NA	NA	na	na				na	2
27	Earnings including REIS revenues	NA	NA	NA	NA	NA	na	na				na	2
28	Earnings including REIS surplus or shortfall	NA	NA	NA	NA	NA	na	na				na	2
29													
30	Decoupling Analysis												
31	Revenue change per proposed decoupling	NA	NA	NA	NA	NA	na	$ 29,453				na	3
31a	Earnings change per proposed decoupling						na	$ 16,394					
32	Earnings adjusted by proposed decoupling	NA	NA	NA	NA	NA	na	$ 115,791				na	3
33	Earnings including proposed decoupling surplus or shortfal	NA	NA	NA	NA	NA	na	$ (7,627)				na	3
33a	Average common equity	$ 612,894	$ 648,423	$ 623,052	$ 644,650	$ 724,973	$ 789,374	$ 858,450					
33b	Estimated ROE	8.49%	6.92%	8.19%	4.85%	8.07%	7.89%	9.47%					
34													
35	Change in revenue with revenue/customer decoupling (reset)	NA	NA	NA	NA	NA	na	$ 3,131				na	4
36	Earnings with revenue/customer decoupling	NA	NA	NA	NA	NA	na	$ 101,140				na	4
37	Earnings including revenue/customer decoupling surplus or shortfal	NA	NA	NA	NA	NA	na	$ (22,278)				na	4
37a	Estimated ROE							7.83%					
37b													
37c	Change in revenue with revenue/customer decoupling (no reset)	NA	NA	NA	NA	NA	na	$ 3,131				na	4
37d	Earnings with revenue/customer decoupling	NA	NA	NA	NA	NA	na	$ 101,140				na	4
37e	Earnings including revenue/customer decoupling surplus or shortfal	NA	NA	NA	NA	NA	na	$ (22,278)				na	4
37f	Estimated ROE							7.83%					
38													
39	Decoupling with historic sales growth adjustment	NA	NA	NA	NA	NA	na	$ 4,132				na	
40	Earnings with historic sales growth adjustment	NA	NA	NA	NA	NA	na	$ 101,697				na	
41	Earnings including historic sales growth adjustment surplus or shortfal	NA	NA	NA	NA	NA	na	$ (21,721)				na	
	Notes												
	1. HECO's latest projection only extends to 2013.												
	2. HECO currently does not have projections identified separately for surcharge revenues recoverable via REIS. AMI is excluded from above.												
	3. HECO's decoupling implementation is projected to coincide with the HECO 2009 rate case interml decision & order.												
	4. HECO is not proposing a revenue per customer decoupling mechanism.												
	Sales gWh	7,732.8	7,721.3	7,700.6	7,675.4	7,556.0	7,484.7	7,464.5	[redacted]				
	Sales per Customer (gWh per 1,000 customers)	26.92	26.62	26.32	26.12	25.67	25.27	25.06					
	Revenue per gWh	$ 45.95	$ 46.98	$ 51.26	$ 50.45	$ 60.76	$ 63.46	$ 70.65					
		cust	$ 3,439	$ 3,224	$ 1,661	$ 633	$ 2,937	$ 2,642					
		usage	$ (4,056)	$ (4,579)	$ (2,906)	$ (8,017)	$ (7,592)	$ (4,369)					
	Response to PUC-IR-27, part e, Base = 2004						Ten Year Sales Trend						
	~~Total Sales Decoupling Adjustment, Change from Line 4 above~~		~~$ (7,418)~~	~~$ (39,413)~~	~~$ (31,920)~~	~~$ (103,793)~~							
	~~Sales per Customer Decoupling Adjustment, Change from Line 4 above~~		~~$ (3,979)~~	~~$ (38,806)~~	~~$ 9,016~~	~~$ (71,279)~~							

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		F	G	H	I	J	K	L
1	**Sheet 1 - HECO (Figures in $1,000's)**							
2	Case with RAM and sales decoupling	Rate Case	RAM	Rate Case	RAM	RAM	RAM	
3		2009	2010	[redacted]			2014	Notes
4	Net Revenues without proposed decoupling	$ 474,945	$ 527,404				na	1
5								
6	Change Analysis from preceding year						na	
7	Change caused by change in rates (rate case)	$ 39,906	$ 46,873				na	
7a	Balancing entry	$ (19,408)	$ 7,313				na	
8	Change caused by average usage changes	$ (7,592)	$ (4,369)				na	
9	Change caused by changes in # of customers	$ 2,937	$ 2,642				na	
10	Total Change in Revenues	$ 15,843	$ 52,459				na	
11	# of customers (000s)	296	298				na	
12								
29								
30	Decoupling Analysis							
31	Revenue change per proposed decoupling	na	$ 29,453				na	3
31a	Earnings change per proposed decoupling	na	$ 16,394					
32	Earnings adjusted by proposed decoupling	na	$ 115,791				na	3
33	Earnings including proposed decoupling surplus or shortfall	na	$ (7,627)				na	3
33a	Average common equity	$ 789,374	$ 858,450					
33b	Estimated ROE	7.89%	9.47%					
34								

[redacted]

[redacted]