

May 14, 2013

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

PUBLIC UTILITIES
COMMISSION

2013 MAY 14 P 4: 19

FILED

Dear Commissioners:

Subject: Transmittal No. 13-03 (Decoupling)
Hawaiian Electric Company, Inc. – Parties’ Letter Agreement

This letter documents certain agreements between Hawaiian Electric Company, Inc. (“Hawaiian Electric” or “Company”), and the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs (“Consumer Advocate”) (collectively referred to as the “Parties”) regarding matters in this proceeding. The agreements set forth in this letter are the result of discussions between the Parties following the filing of the Consumer Advocate’s Statement of Position (“Consumer Advocate’s SOP”) on May 6, 2013.

The agreements set forth in this letter are reflected in the Company’s Revised 2013 Decoupling Calculation Workbook which is an attachment to the Company’s Response to the Consumer Advocate’s SOP (“Response”) filed on May 14, 2013. (The Company’s Revised 2013 Decoupling Calculation Workbook also reflects corrections for errors that were pointed out in the Consumer Advocate’s SOP. The Company agreed to these changes in its Response.) The agreements in this letter address substantive differences between the Parties and go beyond making these corrections for errors to the decoupling tariff submission. Thus, these agreements are included in this separate letter. As a result of the agreements set forth in this letter and the changes the Company agreed to make in its Response, there are no remaining issues between the Parties concerning the Company’s RBA Rate Adjustment Tariff filing.

The agreements set forth in this letter are for the purpose of simplifying and expediting this proceeding, and represent a negotiated compromise of the matters agreed upon, and do not constitute an admission by any party with respect to any of the matters agreed upon herein. The Parties expressly reserve their right to take different positions regarding the matters agreed to herein in other proceedings.

The agreements are as follows:

1. Deferred Regulatory Asset Balances in Rate Base

In Attachment 2, Schedule D1 of Transmittal No. 13-03 (Decoupling) filed on March 28, 2013, Hawaiian Electric presented its calculation of the average 2013 rate base of \$1,536,766,000. Using this calculated rate base amount, the Company calculated its 2013 Rate Base RAM – Return on Investment of \$19,446,563. (Attachment 2, Schedule D). Included in the calculated rate base shown on Schedule D1 were regulatory asset account balances for the Campbell Industrial Park Combustion Turbine Unit 1 (“CIP CT-1”) and the Customer Information System (“CIS”) projects to which the Hawaiian Electric Companies and the Consumer Advocate agreed in their *Stipulated Settlement Agreement regarding Certain Regulatory Matters* (“Stipulated Settlement”), filed in Docket No. 2008-0083, and approved by the Commission in Order No. 31126, issued on March 19, 2013. Based on its understanding of the Stipulated Settlement (including Exhibit 3 of the referenced document), Hawaiian Electric included estimated carrying charges for the period from January 1, 2013 through May 31, 2013 in both the beginning (December 31, 2012) and ending (December 31, 2013) balances of the regulatory assets for the projects. The estimated 2013 accrued carrying charges for the CIP CT-1 and CIS projects amounted to \$937,000 (HECO-WP-D1-001A, page 1) and \$405,000 (HECO-WP-D1-001B, page 1), respectively. For the CIP CT-1 project regulatory asset, Hawaiian Electric also included the depreciation expense deferral estimated for the period from January 1, through May 31, 2013 of \$343,000 (HECO-WP-D1-001A, page 1) in its beginning (December 31, 2012) and ending (December 31, 2013) balance.

In its SOP, the Consumer Advocate recommended that the beginning balances of these regulatory assets would be “more properly stated as of December 31, 2012 in the amounts of \$4,446,000 (CIP CT-1 Reg Asset) and \$14,232,000 (CIS Def Cost) as documented at HECO-WP-D1-001A and HECO-WP-D1-001B, respectively”. The Consumer Advocate’s understanding of the Stipulated Settlement was that it did not provide for a variance from the December 31 valuation dates with respect to the Rate Base RAM valuations. (Consumer Advocate’s SOP at 14-15).

As stated in the Company’s Reply SOP (pages 6-7), the Company disagrees with the Consumer Advocate’s position. *Order No. 31126, Approving, with Clarifications, Stipulated Settlement Agreement, Filed on January 28, 2013*, in Docket No. 2008-0083 approved the Stipulated Settlement which calls for the Company to include the net recoverable costs of the CIP CT-1 and the CIS project not already included in rates, as reflected in Exhibit 3 [of the Stipulated Settlement] in their 2013 RAM Revenue Adjustments (Stipulated Settlement at 2). The Company points out that on the referenced Exhibit 3, pages 1 and 2, for CIP CT-1 and CIS, respectively, the amounts shown under the “Rate Base RAM 12/31/2012” columns include the carrying charges estimated for January 1 through May 31, 2013. The amounts reflected in Schedule D1 for the beginning (12/31/12) balances of both the deferred regulatory assets are consistent with

the referenced Exhibit 3 of the Stipulated Settlement. See HECO-WP-D1-001A, page 1, and HECO-WP-D1-001B, page 1.

In order to resolve the remaining issues in this proceeding, Hawaiian Electric agrees (1) to use the regulatory asset value with respect to the CIP CT-1 and CIS regulatory asset balances at December 31, 2012 as proposed by the Consumer Advocate, and (2) to forgo an adjustment to ADIT associated with the carrying charges incurred in 2013 and included in the Company's ADIT balance at December 31, 2012.¹

2. Rate Base Working Cash Allowance - Earnings Sharing Revenue Credits

In Attachment 2, Schedule H of its transmittal, the Company calculated its 2012 "Earnings Sharing Revenue Credits" based on a 2012 rate base value of \$1,531,776,000. This amount included average working cash of \$28,998,000 (HECO-WP-H-001, page 1). The Company calculated working cash for "rate making" earnings sharing purposes by multiplying the 12-month actual working cash expense components by their respective ratios. The respective ratios are calculated as the net collection lag days approved in the most recent test year rate case, divided by 365 days.

The Consumer Advocate's position is that working cash should not be included in rate base for purposes of calculating Earnings Sharing Credits at a value different from the fixed amount included in the Rate Base RAM which is determined by the Commission in the Company's most recent test year rate case. Because working cash is a calculated value that is not represented by actual balances recorded in the Company's general ledger, the Consumer Advocate states that working cash is a complex ratemaking issue that requires extensive calculations in the form of a lead lag study, which should be undertaken and reviewed in the context of a rate case proceeding. The working cash (or cash working capital) amount determined in the last rate case "should not be replaced or superseded by calculations in a decoupling tariff transmittal whose review is conducted on an expedited basis with no opportunity for the needed discovery, analysis and testimony that would occur in a rate case." Further, because working cash is a calculated or derived value, the Consumer Advocate believes that by fixing the amount at the same level used for the calculation of the Rate Base RAM, "the determination of earnings sharing credits, if any, should not be influenced either positively or negatively by side calculations that produce a higher or lower Working Cash allowance." As a result, the Consumer Advocate recommended a reduction of \$7.9 million to the average rate base used in Schedule H to fix working cash at the amount last approved by the Commission

¹ The Company's agreement with the Consumer Advocate's position creates an inconsistency between the December 31, 2012 deferred regulatory asset balance and the ADIT balance. In adjusting the December 31, 2012 deferred regulatory asset balance (excluding the 2013 carrying charges to be incurred), the Consumer Advocate did not adjust ADIT for the lower carrying charges, which is a book /tax difference. The adjustment would have resulted in a decrease of \$156,368 in the December 31, 2012 ADIT balance and a corresponding increase in the 2013 projected ADIT change. However, Hawaiian Electric has agreed to no change in the ADIT for deferred regulatory assets as a concession towards resolution of this issue.

in Docket No. 2010-0080, consistent with Schedule D1 (Consumer Advocate's SOP at 17-18).

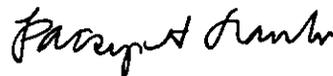
As stated in the Company's Reply SOP (pages 9-10), Hawaiian Electric disagrees with the Consumer Advocate's adjustment. The Company maintains that (1) its calculation on Schedule H is consistent with the amount included in the quarterly filing of ratemaking rate of return on rate base and return on common equity submitted to the Commission for the 12-month period ended December 31, 2012, and (2) the Company's use of actual average amounts in its calculation of working cash in the 2012 Earnings Sharing Credit is based on the Hawaiian Electric RAM Provision tariff, Sheet 93D, which states the following with respect to the Evaluation Period Earnings Sharing:

The schedules will include the following:

- a) Company's recorded actual average net plant in service, accumulated deferred income taxes, inventory, working capital, and other rate base components. The schedules shall also show the utility's depreciation expense, operating and maintenance expense, income taxes, taxes other than income taxes, and other components of income for return, revenues, and capital structure, cost of debt, overall cost of capital, and return on common equity in the format set forth in the final order establishing the Company's latest effective rates...

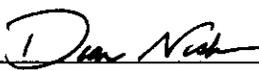
For the sole purpose of resolving the remaining issues in this proceeding, the Consumer Advocate agrees to withdraw its proposed adjustment to working cash used in rate base in the Earnings Sharing Credits calculation.

Sincerely,



Patsy H. Nanbu
Vice President, Regulatory Affairs
Hawaiian Electric Company, Inc.

Concurred:


FOR Jeffrey T. Ono
Executive Director
Division of Consumer Advocacy
Department of Commerce and Consumer Affairs

cc: Division of Consumer Advocacy