BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

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| In the Matter of the Application of | ) | |
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| HAWAII ELECTRIC LIGHT COMPANY, INC. | ) | DOCKET NO. 2015-0170 |
| | ) | |
| For Approval of Rate Increases and Revised Rate Schedules and Rules | ) | |

FINAL DECISION AND ORDER NO. 35559

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PUBLIC UTILITIES COMMISSION

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FINAL DECISION AND ORDER

By this Final Decision and Order, the commission approves a 2016 test year revenue requirement of $292,246,000, and a downward Tax Act Implementation Lag Adjustment of ($1,587,000), which results in an adjusted final revenue requirement of $290,659,000 for HAWAII ELECTRIC LIGHT COMPANY, INC. ("HELCO").[1]

HELCO originally requested that the commission approve a revenue requirement of $314,791,000, or a proposed increase of $19,291,000 (6.50%) over revenues at current effective rates. The commission's Interim Decision and Order approved an interim revenue requirement of $300,658,000, which represented a revenue

[1]The Parties are HELCO and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"). The County of Hawaii was admitted as a participant.

increase of approximately $9,940,000 (3.42%) over revenues at current effective rates.

Thereafter, the commission approved HELCO's request that its interim revenue requirement of $300,658,000 be reduced by $9,999,000, to an adjusted interim revenue requirement of $290,659,000 -- which the commission hereby approves as HELCO's adjusted final revenue requirement in this docket.[2]

In doing so, and except as modified herein, for purposes of the Final Decision and Order, the commission approves the agreements memorialized in the Parties' July 11, 2017 Stipulated Settlement, as amended by the revised figures and representations set forth in HELCO's March 27, 2018 Motion to Adjust Interim Increase, and related filings, which the commission previously approved on April 24, 2018.

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[2]The attached results of operations schedules reflect a final revenue requirement of $292,246,000 for the 2016 test year period, which differs from the adjusted final revenue requirement of $290,659,000. The final revenue requirement of $292,246,000, minus the Tax Act Implementation Lag adjustment of $1,587,000, equals the adjusted final revenue requirement of $290,659,000 ($292,246,000 - $1,587,000 = $290,659,000). The commission previously explained that the "Tax Act Implementation Lag of $1,587,000 represents the net tax savings from January 1, 2018, the effective date of the 2017 Tax Act, through April 30, 2018," and although such "four-month period is outside of and beyond the 2016 test year period[,]" "HELCO essentially proposes to 'roll-in' this net tax savings amount as part of its 2016 test year rate case, such that ratepayers may receive the benefits in net tax savings retroactive to January 1, 2018, the effective date of the 2017 Tax Act." Order No. 35419, "GRANTING MOTION TO ADJUST INTERIM INCREASE[,]" filed on April 24, 2018 ("Order No. 35419") at 5.

Consistent with the commission's Interim Decision and Order, the commission accepts the Consumer Advocate's recommended rate of return on common equity ("ROE") of 9.50%, and rate of return on average rate base ("ROR") of 7.80%.

The commission finds that the resulting test year figures, rates, and adjustments identified herein address HELCO's need for rate relief and adequately protect the interest of ratepayers.

## I.

## BACKGROUND

HELCO is the provider of electric utility service for the island of Hawaii. Previously, the commission "approve[d] HELCO's request to deviate from the triennial rate case filing requirement and file its rate case by December 30, 2016, instead of by the end of 2015[,]"[3] and granted a waiver for HELCO to use a calendar year 2016 test period, instead of a forward test year.[4]

The commission stated that the "filing delay will provide HELCO with the opportunity to use the additional time to ensure that its future revenue requirements reflect HELCO's

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[3]Order No. 33342, "GRANTING HAWAII ELECTRIC LIGHT COMPANY, INC.'S MOTION TO EXTEND DATE TO FILE RATE CASE AND FOR APPROVAL OF TEST PERIOD WAIVER" and "DISSENT OF RANDALL Y. IWASE, COMMISSION CHAIR[,]" filed on November 19, 2015 ("Order No. 33342"), at 8.

[4]Order No. 33342 at 13.

concerted efforts to operate as efficiently and cost-effectively as possible, with a focus on maximizing benefits to its customers while adapting to evolving electric systems and an increased reliance on renewable energy[,]" and that the commission "fully expects HELCO to utilize the time afforded by the rate case filing delay to aggressively pursue its corporate transformation initiatives and implement cost reduction measures that would then be reflected in its 2016 test period revenue requirements."[5]

A.

HELCO Application

On September 19, 2016, HELCO filed its Application for Approval of Rate Increases and Revised Rate Schedules and Rules. HELCO maintains that it "filed this request for a general rate increase because rate relief will be required due to higher costs of operating and maintaining [HELCO's] existing utility infrastructure, costs of transforming [HELCO's] business and supporting achievement of the State's clean energy objectives, costs of adding the new facilities necessary to meet [HELCO's] obligation to provide secure and reliable service to customers, costs to provide expanded and diversified customer energy options

[5]Order No. 33342 at 9-10.

and to improve customer service, and the need to attract and retain the necessary work force."[6]

HELCO states that its "total revenue increase will not exceed the $54,493,000 [(21.1%)] over revenues at present rates[,] . . . but the rates and charges to be finally approved by the Commission after its investigation may be higher or lower than the proposed rates and charges for the various schedules of service."[7]

HELCO seeks approval of a "revenue requirement of $314,791,000 for a normalized 2016 test year[,]" which is "based on fuel oil prices in 2016 and an 8.44% rate of return (which incorporates a return on common equity . . . of 10.60%) on [HELCO's] average rate base."[8]

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[6]Application of Hawaii Electric Light Company, Inc., Verification, and Certificate of Service, filed on September 19, 2016 ("Application") at 27-28.

[7]Application at 26.

[8]Application at 4. Originally, HELCO presented its revenue requirement for the alternate scenarios whereby the Hamakua Energy Partners, L.P. ("Hamakua Energy") power facility ("Hamakua Facility") is "(a) still owned and operated by [Hamakua Energy] as an independent power producer ('IPP') facility, and (b) the [Hamakua Facility] is alternatively owned and operated by [HELCO], as proposed in its pending" application in Docket No. 2016-0033. However, in this docket the Parties subsequently stipulated and agreed that "no costs for a [Hamakua Facility] utility ownership scenario should be considered in this rate case proceeding." Thereafter, Hawaiian Electric Industries, Inc., which is the parent company of HELCO, purchased the Hamakua Facility through a subsidiary, Pacific Current, LLC, and the commission has opened a proceeding in Docket No. 2018-0065 to establish affiliate transaction requirements "that foster competition, and guard against any opportunity for the HECO

"[T]o achieve a revenue requirement of $314,791,000[,]" HELCO states that "the increase would be $39,054,000 (14.2%) over revenues at present rates" "[i]f the effects of the decline in sales (measured by the estimated [Revenue Balancing Account ('RBA')] revenues for the 2016 test year) and the [Revenue Adjustment Mechanism ('RAM')] revenues are included in the revenue increase[.]"[9]

However, if HELCO "has adjusted out the effects of the RBA and the RAM in its calculation of the revenue increase for the 2016 test year[,]" then "[b]ased on a revenue requirement of $314,791,000 for a normalized 2016 test year, [HELCO's] proposed increase is $19,291,000 (6.5%) over revenues at current effective rates."[10] "This increase would represent the proposed recovery of cost increases for the test year that customers are not already

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Companies to favor their own affiliates at the expense of utility customers." In re Pub. Utils. Comm'n, Instituting a Proceeding to Establish Affiliate Transaction Requirements, Docket No. 2018-0065, Order No. 35363, filed on March 22, 2018, at 22.

[9]Application at 6 (emphasis added). HELCO defines "Revenues at present rates" as "revenues over current effective rates less RAM and RBA revenues for the 2016 test year." Id. at 6 n.8. HELCO states that "[r]evenues at current effective rates are the sum of: a) base revenues estimated from rates approved in [HELCO's] 2010 test year rate case; b) revenues from the [Energy Cost Adjustment Clause]; c) revenues from the Purchased Power Adjustment Clause ('PPAC'); d) revenues from the RAM Revenue Adjustment; e) revenues from the RBA Provision; and f) other operating revenues." Id. at 6 n.7.

[10]Application at 6 (emphasis added).

paying for and exclude revenue increases that result from a reduction in electric sales but not cost increases."[11]

HELCO proposed the "implementation of performance based regulation . . . mechanisms to measure and link certain revenues to its performance in areas of customer service, reliability and communication relating to the rooftop solar interconnection process."[12] HELCO requested "approval of [HELCO's] proposed Performance Incentive Mechanisms ('PIMs')" that allegedly "provide financial rewards or penalties for utility performance according to specific metrics[.]"[13]

HELCO also proposed certain modifications to its Energy Cost Adjustment Clause ("ECAC"), which included widening the target heat rates deadbands, equally sharing between HELCO and its customers higher or lower realized fuel costs based on the amount that actual heat rates fall outside the target heat rate deadbands, and adding a trigger for the redetermination of target heat rates.[14]

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[11]Application at 6.

[12]Application at 3.

[13]Application at 15-16.

[14]Application at 31.

B.

Public Hearings

The commission invited the submission of written comments from the general public, and convened public hearings on December 13-14, 2016, in Hilo and Kona, to receive in-person testimony as to HELCO's Application. The public testimony was generally opposed to HELCO's proposed rate increase.

C.

The Consumer Advocate and the County of Hawaii

The Consumer Advocate filed its direct testimonies and exhibits on April 28, 2017. In comparison to HELCO's proposed increase of $19,291,000 over revenues at current effective rates, the Consumer Advocate noted a $2.6 million revenue deficiency under its recommended revenue requirement.[15]

The County of Hawaii was admitted as a participant, and filed its direct testimonies and exhibits on May 25, 2017.

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[15]Division of Consumer Advocacy's Direct Testimonies and Exhibits, filed on April 28, 2017 ("CA Testimony"), T-1 at 10-11.

## D.

## Stipulated Settlement

On July 11, 2017, HELCO and the Consumer Advocate jointly filed a Stipulated Settlement Letter ("Stipulated Settlement"), which states that the Parties "have agreed on all of the issues in this proceeding, except for the narrowed rate of return on common equity ('ROE') issue of whether the ROE should be reduced from 9.75% (by up to 25 basis points) based solely on the impact of decoupling, considering current circumstances and relevant precedents" and the Parties "agree that this narrowed issue shall be addressed through the submission of opening and closing briefs, without the need for an evidentiary hearing on the ROE issue."[16]

In addition, the Parties "agree that the rate changes specifically set forth in this Stipulated Settlement result in just and reasonable rates"[17] and "request the Commission to approve this settlement agreement in total for the purposes of determining the interim and final revenue increases, revenue requirements and rate design for this proceeding."[18]

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[16]Stipulated Settlement at 1.

[17]Stipulated Settlement at 1.

[18]Stipulated Settlement, Exhibit 1 at 4. The Parties "agree that no costs for a [Hamakua Facility] utility ownership scenario should be considered in this rate case proceeding." Id. at 8. In addition, HELCO's proposed performance incentive mechanisms were either withdrawn or deemed moot. Id. at 12.

On July 21, 2017, the Parties submitted individual statements of probable entitlement.[19] HELCO's "position is that the ROE that should be used to calculate the interim increase is 9.75% and the Consumer Advocate's position is that the ROE that should be used to calculate the interim increase should be 9.50%."[20] The Parties "request the Commission to determine which ROE should be used to calculate the interim increase over revenues at current effective rates[,]"[21] and presented alterative scenarios:

- HELCO proposal: $11,142,000 interim increase over revenues at current effective rates (based on 9.75% ROE, and a resulting 7.94% ROR).
- Consumer Advocate proposal: $9,940,000 interim increase over revenues at current effective rates (based on 9.50% ROE, and a resulting 7.80% ROR).[22]

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[19]Hawaii Electric Light Statement of Probable Entitlement, filed on July 21, 2017 ("HELCO Statement"); Consumer Advocate's Statement of Probable Entitlement, filed on July 21, 2017 ("CA Statement").

[20]HELCO Statement at 1.

[21]HELCO Statement at 2.

[22]HELCO Statement at 2; CA Statement at 2. The Parties noted minor differences in their calculations, but agreed that the commission "may use the results by ROE" "and related support to determine the interim revenue increase." HELCO Statement at 3.

E.

Interim Decision and Order

The commission timely issued its Interim Decision and Order on August 21, 2017, which approved an interim increase in revenues for HELCO of approximately $9,940,000, or 3.42% over revenues at current effective rates, based on a total revenue requirement of approximately $300,658,000 for the 2016 Test Year.[23]

For purposes of interim relief, the commission "accept[ed] the agreements memorialized by the Parties in their Stipulated Settlement and statements of probable entitlement" and also accepted "the Consumer Advocate's recommended ROE of 9.5%, and the resulting ROR of 7.8%."[24]

The commission deferred to the Final Decision and Order, any determination as to the proposed: "(1) modifications to the ECAC; (2) rule changes; (3) amendments to the pension/other post-employment benefits tracking mechanisms; (4) establishment of a power supply clearing account; (5) changes to the energy delivery clearing account; and (6) changes in various accounting methods

[23]INTERIM DECISION AND ORDER No. 34766, filed on August 21, 2017 ("Order No. 34766") at 30.

[24]Order No. 34766 at 15.

(e.g., administrative expenses transferred, operation and maintenance expenses associated with capital projects)."[25]

The commission "allow[ed] the Parties to submit, as requested, additional briefs with respect to the ROE issue, and also any of the deferred matters . . . so that it may be addressed in the Final Decision and Order, without the need for an evidentiary hearing."[26]

F.

HELCO's Motion to Adjust Interim Increase

On March 27, 2018, HELCO filed a Motion to Adjust Interim Increase. On April 24, 2018, the commission approved HELCO's request that "its interim revenue requirement of $300,658,000 -- previously approved on August 21, 2017, and which reflected an increase of approximately $9,940,000 or 3.42% over revenues at 2016 current effective rates -- be reduced by $9,999,000 to an

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[25]Order No. 34766 at 28-29. In addition, the commission accepted the Parties' agreement that as to the contemplated "separation and removal of fuel expenses and energy expenses from base rates with recovery of these expenses through an appropriately modified ECAC mechanism," "such modification may occur 'subsequent to the establishment and implementation of final rates in this rate case' and enacted consistent with the commission's prior guidance and in a manner 'to have no impact: 1) on revenue allocation and cost-of-service established for the rate classes; and 2) on effective rates per billed kW and per billed kWh and on individual customer bills.'" Id. at 29.

[26]Order No. 34766 at 26.

adjusted interim revenue requirement of $290,659,000[,]" effective in revised tariffs on May 1, 2018.[27] The commission observed:

> On March 27, 2018, HELCO filed a Motion to Adjust Interim Increase, which requested that the commission approve HELCO's (1) request "to adjust the interim increase for the 2016 test year granted in . . . Interim Decision and Order No. 34766 . . . to incorporate the effects of the Tax Cuts and Jobs Act" "back to January 1, 2018[,]" and (2) proposal for "a revised treatment of the contributions in excess of net periodic pension cost ('NPPC') regulatory asset for the 2016 test year, which reduces Hawai'i Electric Light's revenue requirements, and . . . is consistent with the treatment included in the *Parties' Stipulated Settlement on the Remaining Issues* . . . in Hawaiian Electric Company, Inc.'s 2017 test year rate case (Docket No. 2016-0328)."
>
> HELCO states that its "proposed adjusted interim revenue increase to flow through the benefits of the 2017 Tax Act and to revise the treatment of the Contributions of Excess NPPC for the 2016 test year will reduce the interim surcharge assessed to customers."
>
> On April 10, 2018, HELCO filed a "Revision to Exhibits in Motion to Adjust Interim Increase" . . . which contain revised calculations and exhibits that "result from a subsequent agreement" between HELCO and the [Consumer Advocate] "to apply 18-month amortization periods" "in the calculation of flow through amounts to customers[.]"
>
> HELCO states that as amended by the April 10, 2018 Revision, "in total, these revised calculations result in a <u>greater net reduction</u> of $9,999,000 such that the adjusted interim is a decrease of $59,000" compared to revenues at 2016 current effective rates, and results in an adjusted interim revenue requirement of $290,659,000, as shown in the following table:

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[27]Order No. 35419 at 1.

| | Change over Revenues at Current Effective Rates | Revenue Requirement |
|---|---|---|
| Interim Decision | $9,940,000 | $300,658,000 |
| 2017 Tax Act Adjustment and the Excess Pension Contribution Adjustment | (8,412,000) | (8,412,000) |
| 1/1/2018 - 4/30/2018 Adjustment (the "Tax Act Implementation Lag") | (1,587,000) | (1,587,000) |
| Total Adjustments | (9,999,000) | (9,999,000) |
| Adjusted Interim | ($59,000) | $290,659,000 |

Upon consideration of the record and the Parties' submissions, for purposes of interim relief, the commission grants the Motion "to reflect the [$9,999,000] net reduction of the effects of the 2017 Tax Act and revised treatment of Contributions in Excess of NPPC" and an adjusted interim revenue requirement of $290,659,000 . . . .

The commission notes that the calculation of the adjusted interim revenue requirement of $290,659,000 is derived as follows: HELCO's test year interim revenue requirement amount of $300,658,000, which was previously approved by the commission on August 21, 2017, is reduced by (1) the 2017 Tax Act adjustment and the excess pension contribution adjustment totaling ($8,412,000), and (2) the 2017 Tax Act Implementation Lag amount of ($1,587,000).[28]

[28]Order No. 35419 at 2-4 (footnotes omitted).

The commission noted that the results of operations schedules, included as part Order No. 35419, "reflect[ed] an interim revenue requirement of $292,246,000 for the 2016 test year period, which differs from the adjusted interim revenue requirement of $290,659,000."[29] The commission explained that the "interim revenue requirement of $292,246,000, minus the Tax Act Implementation Lag of $1,587,000, equals the adjusted interim revenue requirement of $290,659,000 ($292,246,000 - $1,587,000 = $290,659,000)."[30]

II.

## DISCUSSION

Collectively, the July 11, 2017 Stipulated Settlement Letter, and the filings in connection with HELCO's March 27, 2018 Motion to Adjust Interim Increase, as approved by the commission for interim purposes, reflect the Parties' agreement on nearly all of the 2016 Test Year revenue requirement components.

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[29]Order No. 35419 at 5, Exhibit A.

[30]Order No. 35419 at 5. "The Tax Act Implementation Lag of $1,587,000 represents the net tax savings from January 1, 2018, the effective date of the 2017 Tax Act, through April 30, 2018," and although such "four-month period is outside of and beyond the 2016 test year period[,]" "HELCO essentially proposes to 'roll-in' this net tax savings amount as part of its 2016 test year rate case, such that ratepayers may receive the benefits in net tax savings retroactive to January 1, 2018, the effective date of the 2017 Tax Act." Id.

With respect to the review of a stipulated settlement agreement, the commission observes that the "general rule is that in requesting rate increases, the burden of proof is on the utility to go forward with the evidence and justify its requested rate increases."[31] "[A]greement between the parties in a rate case cannot bind the PUC, as the PUC has an independent obligation to set fair and just rates and arrive at its own conclusions."[32]

Hawaii Revised Statutes ("HRS") § 269-16 states in part that "[a]ll rates, fares, charges, classifications, schedules, rules, and practices made, charged, or observed by any public utility . . . shall be just and reasonable":

> **Regulation of utility rates; ratemaking procedures.** (a) All rates, fares, charges, classifications, schedules, rules, and practices made, charged, or observed by any public utility or by two or more public utilities jointly shall be just and reasonable and shall be filed with the public utilities commission. . . .
>
> (b) No rate, fare, charge, classification, schedule, rule, or practice, other than one established pursuant to an automatic rate adjustment clause previously approved by the commission, shall be established, abandoned, modified, or departed from by any public utility, except after thirty days' notice to the commission as prescribed in section 269-12(b), and prior approval by the commission for any increases in

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[31]Application of Hawaii Elec. Light Co., Inc., 60 Haw. 625, 637, 594 P.2d 612, 621 (1979).

[32]Application of Hawaiian Elec. Co., Inc., 5 Haw. App. 445, 447, 698 P.2d 304, 307 (1985); Application of Hawaii Elec. Light Co., Inc., 67 Haw. 425, 429, 690 P.2d 274, 278 (1984) ("The PUC is not bound to accept the view of one of the parties in the case.").

rates, fares, or charges. . . . A contested case hearing shall be held in connection with any increase in rates, and the hearing shall be preceded by a public hearing as prescribed in section 269-12(c), at which the consumers or patrons of the public utility may present testimony to the commission concerning the increase. The commission, upon notice to the public utility, may:

(1) Suspend the operation of all or any part of the proposed rate, fare, charge, classification, schedule, rule, or practice or any proposed abandonment or modification thereof or departure therefrom;

(2) After a hearing, by order:

(A) Regulate, fix, and change all such rates, fares, charges, classifications, schedules, rules, and practices so that the same shall be just and reasonable;

(B) Prohibit rebates and unreasonable discrimination between localities or between users or consumers under substantially similar conditions;

(C) Regulate the manner in which the property of every public utility is operated with reference to the safety and accommodation of the public;

(D) Prescribe its form and method of keeping accounts, books, and records, and its accounting system;

(E) Regulate the return upon its public utility property;

(F) Regulate the incurring of indebtedness relating to its public utility business; and

(G) Regulate its financial transactions; and

(3) Do all things that are necessary and in the exercise of the commission's power and jurisdiction, all of which as so ordered, regulated, fixed, and changed are just and reasonable, and provide a fair return on the property of the utility used and useful for public utility purposes.

. . . .

"Under the statutory standard of 'just and reasonable' it is the result reached and not the method employed which is controlling."[33] "[T]he reasonableness of rates is not determined by a fixed formula[,]"[34] and the "methodology employed by the PUC in its rate-making determination lies within its expertise and discretion."[35] "[T]he ratemaking function involves the making of 'pragmatic' adjustments and there is a 'zone of reasonableness' within which the Commission may exercise its judgment."[36]

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[33]HELCO, 60 Haw. at 637, 594 P.2d at 621.

[34]HELCO, 60 Haw. at 636, 594 P.2d at 620.

[35]HELCO, 67 Haw. at 431, 690 P.2d at 279.

[36]Application of Hawaiian Tel. Co., 67 Haw. 370, 382, 689 P.2d 741, 749 (1984) (ellipsis and brackets omitted).

A.

## Operating Revenues

1.

### Electric Sales Revenues

For the test year, the Parties stipulate to an average customer count of 84,699 and electric sales of 1,040.7 gigawatt-hours ("GWh"), which the Consumer Advocate deemed to be "reasonable and acceptable for revenue requirement determination" "[a]s a result of its analyses of actual recorded 2016 sales and more recently prepared forecasts[.]"[37]

For purposes of reaching a global settlement, the Parties agreed that estimates of test year electric sales revenue should be $270,072,000 at present rates, and $289,831,000 at current effective rates, based on HELCO's revised production simulation that included corrections and adjustments identified by the Consumer Advocate, and revised energy cost adjustment clause and purchased power adjustment clause revenues.[38]

The commission finds reasonable the Parties' stipulated test-year average customer count of 84,699, electric sales of

[37]Stipulated Settlement, Exhibit 1 at 18-19.

[38]Stipulated Settlement, Exhibit 1 at 20-22.

1,040.7 GWh, and as noted in Order No. 35419, test year electric sales revenue of $291,358,000.[39]

2.

Other Operating Revenues

In general, other operating revenues consist of: other revenues, that include charges for field collection, returned payments, late payments; miscellaneous service revenues such as charges for the establishment and reconnection of electric service; rent from electric property; gains from disposal of utility property; and other electric revenues.[40]

The Parties stipulate to other operating revenues of $888,000, compared to HELCO's original estimate of $1,094,000 in the Application.[41] The Parties' stipulated figures are based on the use of the Consumer Advocates' late payment charge factor of 0.16542% utilizing recorded cost information, versus HELCO's

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[39]The commission observes that for the derivation of HELCO's Target Revenues for the RBA Provision, after a reduction for the Tax Act Implementation Lag amount of $1,587,000, the resulting Electric Sales Revenue approved in this Final Decision and Order is $289,771,000. See Hawai'i Electric Light Approved Tariff Sheets, filed on April 30, 2018, HELCO Tariff Sheet No. 91E.

[40]See Application, T-9, HELCO-907.

[41]Stipulated Settlement, Exhibit 1 at 23.

proposal of a three-year average,[42] and the Consumer Advocate's acceptance of HELCO's proposed rule changes for "(1) modification of Tariff Rule No. 7 to include language allowing the Company to assess a $25 charge for same day connection/reconnection service to be consistent with the language in comparable Hawaiian Electric and Maui Electric tariffs and (2) modification of Tariff Rule No. 8 to increase Returned Payment charges from $16 to $25."[43]

The commission finds reasonable the Parties' stipulated 2016 test year Other Operating Revenues amount of $888,000.

3.

Total Operating Revenues

The commission approves as reasonable the Parties' stipulated test year amount for Total Operating Revenues of $292,246,000, and in conjunction with the Tax Act Implementation Lag adjustment of $1,587,000, an adjusted final revenue requirement of $290,659,000.

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[42]Stipulated Settlement, Exhibit 1 at 27.

[43]Stipulated Settlement, Exhibit 1 at 27.

B.

## Operations and Maintenance Expenses

1.

### Fuel, Purchase Power and Related Expense Items

a.

#### Fuel

HELCO's fuel expense consists of (1) fuel oil expenses that include industrial fuel oil, diesel fuel oil, and ultra-low sulfur diesel for its central station and distributed generators, and (2) fuel-related expenses that include propane, fuel additive, petroleum inspection, and ocean cargo insurance expenses.[44]

In its direct testimony, HELCO proposed a total fuel expense of $45,289,000.[45] However, utilizing updated figures based on HELCO's revised P-MONTH production simulation model that incorporated corrections and adjustments identified in the Consumer Advocate's direct testimony, and adjustments to account for inadvertent errors that HELCO discovered after the filing of its direct testimonies, the Parties stipulated to a test year fuel expense of $45,996,000, which includes $45,755,000 for fuel oil expenses and $241,000 for fuel-related expenses.[46]

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[44]Stipulated Settlement, Exhibit 1 at 28.

[45]Stipulated Settlement, Exhibit 1 at 28.

[46]Stipulated Settlement, Exhibit 1 at 28-29. In connection with the Parties' stipulation as to fuel and purchased power

The commission finds that the Parties' stipulated fuel expense amount of $45,996,000 is reasonable for the test year.

b.

Purchased Power

"Purchased power is electrical energy produced by non-utility sources, purchased by [HELCO] and then sold to customers on the utility grid[,]" and is "governed by Power Purchase Agreements" that "are contracts between [HELCO] and sellers of energy and capacity."[47] HELCO's test-year purchased power expense include the costs for firm energy, and as-available energy, purchased from independent power producers, based on the projected amount of energy to be purchased by, or made available to, HELCO.[48]

In comparison to total purchased power expense figures of $76,458,000, as proposed in HELCO's direct testimony, or $75,261,000, as proposed in the Consumer Advocate's direct

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expenses, HELCO agreed with the Consumer Advocate that HELCO should "provide annual calibration reports to monitor the difference between the actual results and the estimated results produced from the use of the production simulation model." Id. at 29. The commission accepts the Parties' agreement that HELCO shall continue to file calibration factor reports on an annual basis.

[47]Application T-6 at 73.

[48]Application T-6 at 73-77.

testimony,[49] the Parties stipulated to a test-year total purchased power expense of $72,438,000 ($52,957,000 for purchased energy and $19,481,000 for purchased capacity) based on HELCO's revised production simulation and a total amount of energy to be purchased by HELCO of 516.9 GWh for the test year.[50]

The commission finds the Parties' agreement on the test year purchased power expense of $72,438,000 to be reasonable.

2.

Production, Transmission and Distribution Expenses

a.

Production

In its direct testimony, HELCO estimated test year production operations & maintenance ("O&M") expenses of $20,485,000, including $9,320,000 for production operations expenses, and $11,165,000 for production maintenance expenses.[51] In comparison, the Consumer Advocate recommended numerous downward adjustments to HELCO's proposed expenses, for total production O&M expenses of $17,843,000.[52]

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[49]Stipulated Settlement, Exhibit 1 at 30.

[50]Stipulated Settlement, Exhibit 1 at 30-31.

[51]Stipulated Settlement, Exhibit 1 at 32.

[52]See CA Testimony, CA-102, Schedule C.

For the purpose of a global settlement in this docket, the Parties stipulated to various adjustments to certain non-labor expense components, stipulated overhaul normalization calculations, production maintenance expenses, environmental services expenses, asset management optimization expenses, planning and consulting costs, and geothermal RFP deferred costs.[53] The Parties' stipulated adjustments and agreements result in test year production O&M expenses of $18,451,000.[54] The commission finds that the Parties' settlement amount is reasonable.

b.

Transmission and Distribution

HELCO's "transmission system is a network of 69,000 volt or 69 kilovolt ('kV'), and 34.5 kV transmission lines and transmission switching stations used to transport power from power plants to customer load centers. The power generated at power plants enters the transmission network through generator step-up transformers that are located at transmission switching stations. The power is delivered through the transmission lines to distribution substations. . . . From the distribution substations,

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[53]See Stipulated Settlement, Exhibit 1 at 32-46.

[54]See Docket No. 2015-0170, Parties' Joint Response to PUC-CA-IR-101 / PUC-HELCO-IR-106, filed on July 14, 2017, Attachment 1 at 1, Attachment 2 at 1.

overhead and underground distribution power lines deliver electric service directly to customers or to distribution transformers that further lower the voltage."[55]

"There are approximately 641 miles of overhead transmission lines in the system and a total of 22 transmission switching stations. There are 9,321 transmission poles on the system. Of the 9,321 poles, 8,981 are wood poles and 340 are steel."[56] "There are approximately 3,000 circuit miles of overhead distribution lines and 750 miles of underground distribution lines in the Hawai'i Electric Light system. A total of 67 distribution substations are installed in the Hawai'i Electric Light system. There are an estimated 57,846 distribution poles."[57]

"Other pieces of equipment needed to deliver power to customer[s] include substation class transformers, distribution circuit breakers, reclosers, pole and padmounted transformers, capacitor banks, protective relays, battery banks, fuses, a variety of transmission and distribution switches, vaults, structures, microwave radio and fiber optic communication systems, remote terminal units, a mobile radio system, recorders and metering equipment (measuring voltages, frequency, usage, etc.),

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[55]Application, HELCO-810 at 1.

[56]Application, HELCO-810 at 1.

[57]Application, HELCO-810 at 1.

and communication to individual customer locations with large distributed generation systems."[58]

In its Application, HELCO estimated that its test year transmission and distribution O&M expenses total $17,177,000.[59] In comparison, the Consumer Advocate recommended numerous downward adjustments, for total transmission and distribution O&M expenses of $16,147,000.[60]

The Parties stipulated to adjusted figures for vegetation management outside services costs and storm response costs, and to the removal of joint pole litigation costs.[61] The Parties' adjustments and agreements result in test year transmission and distribution O&M expenses of $16,484,000, which is comprised of $4,367,000 in transmission expenses and $12,118,000 in distribution expenses.[62]

The commission finds that the Parties' settlement amounts are reasonable.

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[58]Application, HELCO-810 at 1.

[59]Stipulated Settlement, Exhibit 1 at 46.

[60]Stipulated Settlement, Exhibit 1 at 46.

[61]Stipulated Settlement, Exhibit 1 at 47-50.

[62]Stipulated Settlement, Exhibit 1 at 46-47.

### 3.

### Customer Accounts Expense, Allowance for Uncollectible Accounts and Customer Service Expense

#### a.

#### Customer Accounts and Allowance for Uncollectible Accounts

Customer Accounts expenses "includes the costs incurred for activities the Company provides to serve its customers that relate to: customer billing (including the cost of processing customer requests to commence, modify or terminate service) and mailing; meter reading; collecting and processing payments; handling customer inquiries; maintaining customer records; managing delinquent and uncollectible accounts; and conducting field services and investigations."[63]

HELCO's 2016 test year estimates for Customer Accounts expense was $8,850,000, which included Uncollectible Accounts expense of $593,000 "based on a three-year average of recorded net write-offs[.]"[64] However, the Consumer Advocate proposed fourteen adjustments, which reduced HELCO's 2016 test year Customer Accounts expense to $8,163,000, including Uncollectible Accounts expense of $446,000.[65]

[63]Application, T-9 at 45.

[64]Stipulated Settlement, Exhibit 1 at 51-52.

[65]Stipulated Settlement, Exhibit 1 at 51.

In the Parties' Stipulated Settlement, HELCO accepted the Consumer Advocate's proposed downward adjustments totaling $521,000 to Customer Accounts expense, and $147,000 to Uncollectible Accounts expense.[66]

This results in stipulated figures of Customer Accounts expense (without Uncollectible Accounts) of $7,736,000, Uncollectible Accounts expense of $446,000, and total Customer Accounts expense of $8,182,000.[67]

The commission finds that the Parties' settlement amounts are reasonable.

b.

Customer Service Expense

HELCO states that Customer Service expense "consists of those costs incurred for customer interactions and activities that enhance the value customers receive from their electric utility service."[68] HELCO originally proposed Customer Service expenses of $1,235,000.[69]

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[66]Stipulated Settlement, Exhibit 1 at 51-52.

[67]Stipulated Settlement, Exhibit 1 at 51.

[68]Application, T-15 at 29.

[69]Stipulated Settlement, Exhibit 1 at 52.

In the Parties' stipulated settlement, HELCO agreed to the Consumer Advocate's $19,000 downward adjustment, resulting in a stipulated Customer Service expense of $1,216,000.[70]

The commission finds reasonable the Parties' stipulated amount of $1,216,000 for Customer Service expense.

4.

Administrative and General Expenses

Administrative and General ("A&G") expenses "represent a diverse group of expenses including operating expenses not provided for in other functional areas[,]" which include: "(1) Administrative expense, which includes administrative and general labor and office supplies and expenses; (2) Outside Services expense, which includes legal, others and services provided by associated companies; (3) Insurance, which includes property insurance and injuries and damages; (4) Employee Benefits expense and (5) Other Administrative and General expense, which includes regulatory commission expenses, institutional/goodwill advertising, miscellaneous general expenses including community service activities, company memberships, research and development,

[70]Stipulated Settlement, Exhibit 1 at 52.

preferred stock and long-term debt expenses, and directors' fees and expenses, rent expense and maintenance expense."[71]

In its direct testimony, HELCO proposed A&G expenses totaling $20,692,000 (Administrative $1,415,000, Outside Services $6,592,000, Insurance $2,622,000, Employee Benefits $8,216,000, and Other Administrative and General $1,847,000).[72]

The Consumer Advocate proposed various adjustments of ($1,857,000), for A&G expenses totaling $18,836,000.[73]

In their Stipulated Settlement, the Parties agreed to: (1) Net Periodic Pension Cost ("NPPC") expense of $6,903,000, amortization of the prepaid pension liability of ($274,000), amortization of the pension regulatory asset of $5,284,000, amortization of the contributions in excess of NPPC regulatory asset of $609,000, Net Periodic Benefit Cost ("NPBC") expense of $0 (excluding executive life), SFAS 106 amortization of $0, and amortization of the Other Post-Employment Benefits ("OPEB") regulatory liability of ($416,000));[74] (2) reduced expenses for

[71]Stipulated Settlement, Exhibit 1 at 53.

[72]Stipulated Settlement, Exhibit 1 at 53.

[73]Stipulated Settlement, Exhibit 1 at 53.

[74]Stipulated Settlement, Exhibit 1 at 56-57.

telecom planning services;[75] (3) reduced rate case expenses;[76] (4) exclusion of the termination fee for its group health plan agreement with HMSA;[77] and (5) enterprise resource planning/ enterprise asset management project expenses relating to the implementation phase of the project to reflect the recorded 2016 expense amount in exchange for the Consumer Advocate's withdrawal of its imputation of the merger termination fee.[78]

As a result, the commission's Interim Decision and Order included A&G expenses totaling $19,254,000.[79]

However, as previously indicated, on March 27, 2018, HELCO filed its Motion to Adjust Interim Increase, which requested approval of its proposal for "a revised treatment of the contributions in excess of net periodic pension cost ('NPPC') regulatory asset for the 2016 test year, which reduces Hawai'i Electric Light's revenue requirements, and . . . is consistent with the treatment included in the *Parties' Stipulated*

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[75]Stipulated Settlement, Exhibit 1 at 57-58.

[76]Stipulated Settlement, Exhibit 1 at 58-59.

[77]Stipulated Settlement, Exhibit 1 at 60.

[78]Stipulated Settlement, Exhibit 1 at 60-61.

[79]See Order No. 34766 at Exhibit A.

*Settlement on the Remaining Issues* . . . in Hawaiian Electric Company, Inc.'s 2017 test year rate case (Docket No. 2016-0328)."[80]

On April 10, 2018, HELCO filed a "Revision to Exhibits in Motion to Adjust Interim Increase" ("April 10, 2018 Revision"), which contained revised calculations and exhibits that "result from a subsequent agreement" between HELCO and the Consumer Advocate "to apply 18-month amortization periods" "in the calculation of flow through amounts to customers[.]"[81]

The April 10, 2018 Revision noted total A&G expenses of $18,375,000,[82] which amount is $879,000[83] less than the stipulated A&G expenses of $19,254,000 in the Interim Decision and Order.

With respect to HELCO's reduction to the amortization of the contributions in excess of NPPC regulatory asset, which is the source of the $879,000 reduction to A&G expenses, HELCO explained:

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[80]Motion of Hawai'i Electric Light Company, Inc. to Adjust Interim Increase, Memorandum in Support of Motion, Exhibits 1-16, and Certificate of Service, filed on March 27, 2018 ("Motion"), at 2.

[81]April 10, 2018 Revision at 1-2.

[82]April 10, 2018 Revision, Exhibit 3D.

[83]April 10, 2018 Revision, Revised Exhibit 6A at 3 (Amortization for the Excess Pension Contribution, $609,000 + Amortization of the Refund for the Excess Pension Contributions collected in rates, $270,000 = $879,000).

Under the pension tracking mechanism, the Company is required to contribute to the pension trust the amount of the [NPPC], unless the minimum required contribution under the law requires an amount greater than the NPPC. The pension tracking mechanism also allows the Company to recover through rates the amount of any contribution to the pension trust in excess of NPPC if the contribution is the minimum level required by law. The pension tracking mechanism requires the amounts contributed above the NPPC to be in a regulatory asset account, and included in rate base.

As discussed in direct testimony, in 2011, Hawai'i Electric Light ("Company") was required to contribute $8,897,000 to the pension trust while the NPPC was $5,850,000. The excess contribution amounting to $3,047,000 was recorded as an addition to contributions in excess of NPPC regulatory asset. In direct testimony, the Company proposed that the amortization of the contributions in excess of NPPC regulatory asset of $609,000 be included in the test year revenue requirement. Rate base included a beginning and ending balance of $3,047,000. These amounts were included in the Stipulated Settlement and in the Interim Decision & Order 34766 dated August 21, 2017, the Commission allowed recovery of the amortization of the contributions in excess of NPPC regulatory asset.

In the Hawaiian Electric 2017 test year rate case (Docket No. 2016-0328), Hawaiian Electric . . . proposed that the entire amount of the asset be included in rate base, but no amortization of the asset be included in test year expenses. Additionally, going forward, Hawaiian Electric will make the minimum required contributions under the Employee Retirement Income Security Act of 1974 ("ERISA"), and reduce the amount of the contributions in excess of NPPC by the difference between the minimum required contributions and the NPPC each year until the contribution in excess of NPPC is zero, at which point, it would resume contributing the full NPPC amount (and the pension tracking mechanism be modified slightly to accommodate this funding methodology).

Hawaiian Electric discussed the proposed regulatory treatment and the pension funding with the Consumer Advocate, and in the Stipulated Settlement on Remaining Issues filed on March 5, 2018, the parties agreed to the following regulatory treatment:

1. No amortization of the excess pension contribution shall be included in test year revenue requirements.

2. The Company shall reduce the amount of the contributions in excess of NPPC by the difference between the minimum required contributions and the NPPC each year until the contribution in excess of NPPC is zero, at which point, it would resume contributing the full NPPC amount.

3. Rate base shall include the excess pension contribution asset. The amount included in rate base would be one-third of the contributions in excess of NPPC.

As a result of the Hawaiian Electric issue discussed above, the Company's position is that Hawai'i Electric Light should follow similar treatment agreed to in the Hawaiian Electric rate case. . . . To address this issue, the Company proposes the following:

1. No amortization of the excess pension contribution shall be included in 2016 test year expenses in the calculation of revenue requirements. Amortization of $609,000 previously included in revenue requirements will be eliminated.

2. Amortization collected in rates from the interim through the revised interim shall be returned to customers. Assuming that a new interim rate incorporating the adjustments to the revenue requirement will be effective May 1, 2018, the amortization would have been included in rates from August 31, 2017 through April 30, 2018 for a total of 243 days.

The Company calculates the amount to be returned to customers to be:

$609,000/365 * 243 = $405,400

Assuming amortization of this refund over 1.5 years, the proposed amortization reducing rates is:

$405,400/1.5 = $270,300

3. The Company shall reduce the amount of the contributions in excess of NPPC by the difference between the minimum required contributions and the NPPC each year until the contribution in excess of NPPC is zero, at which point, it would resume contributing the full NPPC amount. Current forecast for Hawai'i Electric Light pension funding for 2018 is $7,811,000, one-twelfth of which the Company is currently contributing monthly. Once contributed to the pension fund, amounts cannot be reversed, therefore similar to the situation at Hawaiian Electric, if the revised approach is approved early enough in the year (i.e., by June 30, 2018), based on the minimum required contribution, it appears that the contributions in excess of NPPC could be fully utilized in 2018.

4. Rate base shall include the excess pension contribution asset. The amount included in beginning and ending rate base for the 2016 test year would be one-half of the contributions in excess of NPPC:

$3,047,000/2 = $1,523,500[84]

[84]April 10, 2018 Revision, Exhibit 6A (footnotes omitted).

On April 24, 2018, the commission approved HELCO's request to adjust its interim revenue requirements, which incorporated the effects of HELCO's excess pension contribution adjustment, and reflected total A&G expenses of $18,375,000.[85]

Consistent with Docket No. 2016-0328, the commission approves as reasonable the Parties' methodology to adjust HELCO's excess pension contributions, and the resulting test year A&G expense amount of $18,375,000.

5.

Operations and Maintenance Expenses

Based on the above, the commission approves as reasonable for the 2016 Test Year, total operations and maintenance expenses in the amount of $181,143,000.[86]

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[85]Order No. 35419, Exhibit A.

[86]Fuel expense ($45,996,000) + purchased power expense ($72,438,000) + production O&M expense ($18,451,000) + transmission and distribution O&M expense ($16,484,000) + customer accounts expense ($8,182,000) + customer service expense ($1,216,000) + A&G expense ($18,375,000) = $181,143,000.

## C.

## Non-Operations and Maintenance Expenses

The commission approves as reasonable for the 2016 Test Year, total non-operations and maintenance expenses, which are consistent with the total non-operations and maintenance expenses in the Interim Decision and Order, as amended due to the Parties' agreed-upon changes to depreciation and amortization, taxes other than income taxes, and income taxes that result from the 2017 Tax Act, the adjustment related to HELCO's excess pension contributions, and as otherwise reflected in Order No. 35419.

### 1.

### Depreciation and Amortization Expenses

The Parties stipulated to HELCO's "test year estimates for net depreciation expense" of $37,773,000, "based on existing Commission-approved depreciation and amortization rates and balances for utility plant in service as of January 1, 2016[.]"[87] The commission's Interim Decision and Order reflected depreciation and amortization expenses of $37,773,000.[88]

In connection with HELCO's Motion and April 10, 2018 Revision that contained HELCO's and the Consumer Advocate's

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[87] Stipulated Settlement, Exhibit 1 at 62.

[88] See Order No. 34766 at Exhibit A.

revised figures "to apply 18-month amortization periods" "in the calculation of flow through amounts to customers[,]"[89] HELCO's depreciation and amortization expenses were reduced to $37,675,000,[90] and this figure was incorporated in the results of operations schedule in the commission's order granting HELCO's request to adjust its interim revenue requirements.[91]

The commission approves as reasonable HELCO's test year depreciation and amortization expenses of $37,675,000.

2.

Amortization of the State Investment Tax Credit

The commission finds reasonable the Parties' estimated amortization of State Investment Tax Credit amount of ($598,000).[92]

3.

Taxes Other Than Income Taxes

HELCO's taxes other than income taxes ("TOTIT") include taxes or fees related to either payroll or utility revenue: (1) Payroll Taxes of (a) Federal Insurance Contribution and

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[89]April 10, 2018 Revision at 1-2.

[90]April 10, 2018 Revision, Exhibit 3D.

[91]Order No. 35419, Exhibit A.

[92]See April 10, 2018 Revision, Exhibit 3D; Order No. 35419, Exhibit A.

Medicare tax, (b) Federal Unemployment tax, and (c) State Unemployment tax; and (2) Utility Revenue Taxes of (a) State Public Service Company tax, (b) State Public Utility fee, and (c) County Utility Franchise tax.[93]

The Parties are in general agreement as to the methodology used for the calculation of TOTIT, and the commission finds reasonable the test year TOTIT amounts at current effective and proposed rates of $27,024,000 and $27,160,000, respectively.[94]

4.

## Interest on Customer Deposits

The Parties stipulated to use the Consumer Advocate's proposal of "2016 test year interest on customer deposits of $180,000, based on the 6% interest rate applied to customer deposits of $3,006,000 updated to be based solely on recorded 2016 average customer deposit balance."[95]

The commission finds reasonable the Parties' stipulated interest on customer deposits amount of $180,000.

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[93]Application, T-17 at 1-2.

[94]See April 10, 2018 Revision, Exhibit 3D; Order No. 35419, Exhibit A.

[95]Stipulated Settlement, Exhibit 1 at 63-64.

## 5.

### Income Taxes

HELCO's calculations of income taxes "employ a composite rate of 38.91%. This rate assumes the top marginal federal income tax rate of 35% and a state income tax rate of 6.4%. This combined rate became effective as of January 1, 1993[.]"[96]

The Parties stipulated that "there are no substantive issues regarding the calculation of income taxes" and they "are in agreement regarding the method of interest synchronization calculation[.]"[97] "Income taxes must be recalculated to recognize adjusted revenues, expenses and synchronized interest (rate base, cost of capital) by integrating the results of all adjustments agreed upon by the Parties."[98]

The commission's Interim Decision and Order estimated income taxes of $12,245,000 and $15,769,000 at current effective and proposed rates, respectively.[99]

However, on March 27, 2018, HELCO filed its Motion, seeking approval of HELCO's request "to adjust the interim increase for the 2016 test year granted in the Interim Decision and Order

[96]Application, T-17 at 8.

[97]Stipulated Settlement, Exhibit 1 at 63.

[98]Stipulated Settlement, Exhibit 1 at 63.

[99]See Order No. 34766 at Exhibit A.

No. 34766 . . . to incorporate the effects of the Tax Cuts and Jobs Act" "back to January 1, 2018[,]" consistent with Docket No. 2016-0328.[100] Thereafter, HELCO's April 10, 2018 Revision contained revised calculations and exhibits that "result from a subsequent agreement" between HELCO and the Consumer Advocate "in the calculation of flow through amounts to customers[.]"[101]

The commission granted the Motion "to reflect the [$9,999,000] net reduction of the effects of the 2017 Tax Act and revised treatment of Contributions in Excess of NPPC[,]" and noted that "the calculation of the adjusted interim revenue requirement of $290,659,000 is derived as follows: HELCO's test year interim revenue requirement amount of $300,658,000, which was previously approved by the commission on August 21, 2017, is reduced by (1) the 2017 Tax Act adjustment and the excess pension contribution

[100]Motion at 1, Memorandum in Support at 6 (stating in part that "interim rates will be adjusted to reflect the reduction in the Federal Income Tax Rate from 35% to 21% to calculate the revenue requirement for the 2016 test year"). See also In re Pub. Utils. Comm'n, Instituting a Proceeding to Investigate the Impacts of the Tax Cuts and Jobs Act of 2017, Docket No. 2018-0012, Order No. 35241, filed on January 26, 2018, at 4 ("On December 22, 2017, the President of the United States signed the 2017 Tax Act into law, effective January 1, 2018, which, among other things, significantly reduces the federal corporate income tax rate.").

[101]April 10, 2018 Revision at 1-2.

adjustment totaling ($8,412,000), and (2) the 2017 Tax Act Implementation Lag amount of ($1,587,000)."[102]

The commission finds reasonable the Parties' agreements with regard to HELCO's revised income tax calculations and figures, as presented in the Motion and April 10, 2018 Revision, and previously approved by the commission in Order No. 35419. This commission finds reasonable the test year amounts for income taxes at current effective and proposed rates of $8,787,000 and $9,145,000, respectively.

D.

Rate Base

HRS § 269-16(b)(3) states that a public utility is allowed "a fair return on the property of the utility used and useful for public utility purposes." "Rate base represents the total investment in, or fair value of, the facilities of a utility employed in providing its service."[103] "The determination of a

[102]Order No. 35419 at 4. The commission's results of operations schedule noted income taxes of $8,786,000 and $9,145,000 at current effective and proposed rates, respectively, and "reflect[ed] an interim revenue requirement of $292,246,000 for the 2016 test year period," which "minus the Tax Act Implementation Lag of $1,587,000, equals the adjusted interim revenue requirement of $290,659,000 ($292,246,000 - $1,587,000 = $290,659,000)." Id. at 5, Exhibit A.

[103]Hawaiian Tel., 67 Haw. at 387, 689 P.2d at 752 (quotation marks omitted).

proper rate base thus entails a valuation of the property of the utility devoted to public utility purposes on which the public utility is allowed to earn an appropriate rate of return."[104]

"For rate case purposes, Hawai'i Electric Light calculated an average rate base which is the sum of the average balances of investments in assets less the sum of the average balances of funds from non-investors."[105]

For the purpose of a global settlement, the Parties stipulated to adjustments to reflect updated 2016 year-end balances, revised pension and other post-employment benefit figures, deferred system development and other costs, production materials inventory and fuel inventory, and the calculation of working cash and accumulated deferred income taxes.[106]

In summary, the commission finds reasonable the Parties' agreements and stipulated amounts as to HELCO's test year average rate base, as modified by HELCO's Motion and the April 10, 2018 Revision, and incorporated by the commission in Order No. 35419.

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[104]Application of Puhi Sewer & Water Co., Inc., 83 Hawai'i 132, 137, 925 P.2d 302, 307 (1996) (quotation marks omitted).

[105]Stipulated Settlement, Exhibit 1 at 65.

[106]Stipulated Settlement, Exhibit 1 at 65-67.

1.

## Net Plant-In-Service

According to HELCO, the "net cost of plant in service represents the Company's unrecovered investment in plant that is used and useful and necessary to provide electric service" and "consists of the gross plant in service less accumulated depreciation, removal regulatory liability, and asset retirement obligation[.]"[107] "In determining Net Cost of Plant in Service for an average rate base for a calendar based test year, the Company takes the beginning balance of Net Cost of Plant in Service as of December 31 of the year just prior to the test year and the ending balance of Net Cost of Plant in Service as of December 31 of the test year and averages the two balances."[108]

In the Stipulated Settlement, the Parties stipulated to an average net plant-in-service balance of $658,583,000.[109] This amount was approved in the Interim Decision and Order, was unchanged in HELCO's Motion and the April 10, 2018 Revision, and was also incorporated by the commission in Order No. 35419. The commission finds reasonable the Parties' test year net plant-in-service average rate base balance of $658,583,000.

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[107]Application, HELCO-1904 at 2-3.

[108]Application, HELCO-1904 at 3.

[109]Stipulated Settlement, Exhibit 1 at 66.

2.

Property Held for Future Use

"Property held for future use represents the Company's investment in property needed to provide electric service in the future."[110]

In the Stipulated Settlement, the Parties stipulated to a property held for future use average balance of $871,000.[111] This amount was approved in the Interim Decision and Order, was unchanged in HELCO's Motion and the April 10, 2018 Revision, and was also incorporated by the commission in Order No. 35419.

The commission finds reasonable the Parties' test year property held for future use average rate base balance of $871,000.

3.

Fuel Inventory

HELCO states that "[f]uel inventory is the Company's investment in a supply of fuel held in inventory. An investment in fuel inventory is required to ensure a sufficient supply of fuel for the Company's power plants so that it can provide continuous and reliable electric service to its customers."[112]

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[110]Application, HELCO-1904 at 3.

[111]Stipulated Settlement, Exhibit 1 at 66.

[112]Application, HELCO-1904 at 3.

In the Stipulated Settlement, the Parties stipulated to fuel inventory average balance of $6,021,000.[113] This amount was approved in the Interim Decision and Order, was unchanged in HELCO's Motion and the April 10, 2018 Revision, and was also incorporated by the commission in Order No. 35419. The commission finds reasonable the Parties' test year fuel inventory average rate base balance of $6,021,000.

4.

Materials and Supplies Inventories

"Materials and supplies inventories include production inventory and transmission and distribution . . . inventory."[114]

In the Stipulated Settlement, the Parties stipulated to materials and supplies inventories average balance of $7,082,000.[115] This amount was approved in the Interim Decision and Order, was unchanged in HELCO's Motion and the April 10, 2018 Revision, and was also incorporated by the commission in Order No. 35419. The commission finds reasonable the Parties' test year materials and supplies inventories average rate base balance of $7,082,000.

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[113]Stipulated Settlement, Exhibit 1 at 66, 79.

[114]Application, HELCO-1904 at 3.

[115]Stipulated Settlement, Exhibit 1 at 66.

Unamortized Net ASC 740 Regulatory Asset

HELCO states that the "unamortized net ASC 740 regulatory asset is an accounting asset that arose due to the reporting requirements of ASC 740" that "requires the debt portion of [Allowance for Funds Used During Construction ("AFUDC")], as well as any other item previously recorded on a net-of-tax basis, to be calculated and capitalized on a gross-of-tax basis."[116]

"As a result, plant in service would have increased by the tax effect of the debt portion of AFUDC. However, instead of increasing plant in service, ASC 740 requires this gross-up adjustment to a regulatory asset, with the offsetting credit to the deferred income tax liability account. Because the regulatory asset is offset by the corresponding increase in accumulated deferred income taxes, there is no net rate base impact."[117]

The commission finds that the Parties' stipulated unamortized net ASC 740 regulatory asset average rate base balance of $11,470,000[118] is reasonable.

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[116]Application, HELCO-1904 at 4-5.

[117]Application, HELCO-1904 at 5.

[118]Stipulated Settlement, Exhibit 1 at 66.

6.

Pension Regulatory Asset

"The pension tracking regulatory asset is the cumulative difference between the actuarially calculated NPPC during a rate effective period and the Commission approved NPPC included in rates ('NPPC in rates') for that rate effective period, tracked under the pension tracking mechanism approved by the Commission[.]"[119] HELCO states that it "is included in rate base because it represents costs which have not yet been paid for by customers."[120]

The commission finds reasonable the Parties' stipulated pension tracking regulatory asset average rate base balance of $24,666,000,[121] which amount was approved in the Interim Decision and Order, was unchanged in HELCO's Motion and the April 10, 2018 Revision, and was also incorporated in Order No. 35419.

7.

Contributions in Excess of NPPC

"Contributions in excess of NPPC regulatory asset represent the cumulative amounts of contribution to the pension trust made in excess of the cumulative pension cost (NPPC accrual).

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[119]Application, HELCO-1904 at 5.

[120]Application, HELCO-1904 at 5.

[121]Stipulated Settlement, Exhibit 1 at 66, 71.

. . . NPPC represents the annual amount that the Company must recognize on its financial statements as the cost of providing pension benefits to its employees for the year, and includes amounts ultimately charged both to expense and to capital."[122] "It is the current period charge for the pension plan and is calculated based on the actuarial assumptions of pension obligation, economic performance of the fund investment, and amortization of prior period amounts."[123]

The Parties stipulated to accept the Consumer Advocate's proposed upward adjustment of the test year average contributions in excess of NPPC regulatory asset balance by $304,000 from $2,743,000 to $3,047,000."[124] The commission's Interim Decision and Order included this figure.[125]

Subsequently, in connection with HELCO's Motion seeking approval of HELCO's proposal for "a revised treatment of the contributions in excess of [NPPC] regulatory asset for the 2016 test year, which reduces Hawai'i Electric Light's revenue requirements,"[126] HELCO proposed in part:

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[122]Application, HELCO-1904 at 6.

[123]Application, HELCO-1904 at 6.

[124]Stipulated Settlement, Exhibit 1 at 70.

[125]See Order No. 34766 at Exhibit B.

[126]Motion at 2.

3. The Company shall reduce the amount of the contributions in excess of NPPC by the difference between the minimum required contributions and the NPPC each year until the contribution in excess of NPPC is zero, at which point, it would resume contributing the full NPPC amount. Current forecast for Hawai'i Electric Light pension funding for 2018 is $7,811,000, one-twelfth of which the Company is currently contributing monthly. Once contributed to the pension fund, amounts cannot be reversed, therefore similar to the situation at Hawaiian Electric, if the revised approach is approved early enough in the year (i.e., by June 30, 2018), based on the minimum required contribution, it appears that the contributions in excess of NPPC could be fully utilized in 2018.

4. Rate base shall include the excess pension contribution asset. The amount included in beginning and ending rate base for the 2016 test year would be one-half of the contributions in excess of NPPC:

$3,047,000/2 = $1,523,500[127]

In Order No. 35419, the commission approved HELCO's revised treatment of its Contributions in Excess in NPPC that resulted in a test year average excess pension contribution asset rate base balance of $1,524,000.[128]

Consistent with Docket No. 2016-0328, the commission approves as reasonable the Parties' methodology to adjust HELCO's

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[127]April 10, 2018 Revision, Exhibit 6A.

[128]Order No. 35419, Exhibit B.

excess pension contribution asset balance, and the resulting average test year contributions in excess of NPPC rate base balance of $1,524,000.

8.

<u>Pension Asset Balance Consolidation</u>

The commission finds reasonable the Parties' proposal "to consolidate the estimated remaining balance of the pension asset [regulatory liability] at the effective date of interim rates in this case, along with the related amortization, in the NPPC regulatory asset account."[129]

9.

<u>Deferred System Development and Other Costs</u>

"Deferred system development costs consist of the unamortized portion of computer software development project costs for which Commission approval has been obtained to defer and amortize these costs for ratemaking purposes."[130]

"In its direct testimony, Hawai'i Electric Light's 2016 test year estimate for deferred system development and other costs was $5,776,000, which included an average rate base amount

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[129]Stipulated Settlement, Exhibit 1 at 66, 73.

[130]Application, HELCO-1904 at 4.

of $1,980,000 for the Geothermal RFP associated with Docket No. 2012-0164 and $391,000 for the PSIP deferred consultant costs associated with Docket No. 2016-0156[.]"[131]

The Parties stipulated "to a final net downward adjustment of $1,267,000"[132] that results in an average deferred system development costs rate base balance of $4,509,000.[133] The commission finds this amount to be reasonable.

10.

Unamortized Contributions in Aid of Construction

Contributions in Aid of Construction ("CIAC") "is money or property that a developer or customer contributes to the Company to fund a utility capital project. . . . CIAC is included as a deduction from investments in assets funded by investors in determining rate base."[134]

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[131]Stipulated Settlement, Exhibit 1 at 76.

[132]This is the result of the "the Parties' acceptance of the Consumer Advocate's Adjustment C-7 that reduces Geothermal RFP deferred costs to exclude Hawaiian Electric labor related expenses[,]" and adjustments resulting in a negative balance for Power Supply Improvement Plan deferred consultant costs. See Stipulated Settlement, T-11, Attachment 2.

[133]Stipulated Settlement, Exhibit 1 at 76-77.

[134]Application, HELCO-1904 at 6-7.

The commission finds reasonable the Parties' stipulated average unamortized CIAC rate base balance of $96,254,000,[135] which has been unchanged since the Interim Decision and Order.

11.

Customer Advances

"Customer advances for construction are funds paid by customers to the Company which may be refunded in whole or in part as specified in the Company's tariff" and "are included as a deduction from investments in assets funded by investors in determining rate base."[136]

The commission finds reasonable the Parties' stipulated average customer advances rate base balance of $11,216,000, which incorporates adjustments proposed by the Consumer Advocate.[137]

12.

Customer Deposits

"Customer deposits are monies collected from customers who do not meet the Company's criteria for establishing credit at

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[135]Stipulated Settlement, Exhibit 1 at 66, 71.

[136]Application, HELCO-1904 at 7.

[137]Stipulated Settlement, Exhibit 1 at 66-67. These adjustments reflect the Parties' agreement to "reflect the actual 2016 balances at December 31, 2016 for rate base[,]" as opposed to estimated year-end 2016 balances. Id. at 67.

the time they request service" and "are included as a deduction from investments in assets funded by investors in determining rate base."[138]

The commission finds reasonable the Parties' stipulated average customer deposits rate base balance of $3,006,000, which incorporates adjustments proposed by the Consumer Advocate.[139]

13.

Accumulated Deferred Income Taxes

Accumulated Deferred Income Taxes ("ADIT") "represents the cumulative amount by which tax expense has exceeded tax remittances. This is primarily due to tax timing differences resulting from differences between depreciation and accelerated depreciation recorded for accounting purpose and those used for the calculation of income taxes. . . . Although rates are established based on income tax expense, tax remittances to the government on a cumulative basis have been lower than the taxes collected through rates."[140] "As a result, ratepayers have funded the ADIT balance. Over time, the Company will eventually pay the

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[138]Application, HELCO-1904 at 7.

[139]Stipulated Settlement, Exhibit 1 at 66-67. These adjustments reflect the Parties' agreement to "reflect the actual 2016 balances at December 31, 2016 for rate base[,]" as opposed to estimated year-end 2016 balances. Id. at 67.

[140]Application, HELCO-1904 at 7.

government the amounts recorded as deferred income taxes. ADIT is reflected as a deduction from investments in assets funded by investors in determining rate base."[141]

The Parties initially stipulated to "a downward adjustment to ADIT by $1,216,000 from $107,869,000 to $106,653,000[.]"[142] However, in connection with HELCO's Motion and the April 10, 2018 Revision, the Parties revised this figure to $106,060,000 to reflect the Parties' ratemaking treatment of the various 2017 Tax Act impacts to ADIT, which was incorporated by the commission in Order No. 35419.[143]

The commission finds this amount to be reasonable.

14.

Unamortized State Investment Tax Credit

"Unamortized Investment Tax Credits are tax credits which reduce tax payments in the year the credit originates, but which are amortized for ratemaking purposes. Similar to accumulated deferred income taxes, unamortized investment tax credits are funds provided by ratepayers" that result from "differences in the timing of when the credits are taken for

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[141]Application, HELCO-1904 at 7.

[142]Stipulated Settlement, Exhibit 1 at 82.

[143]See April 10, 2018 Revision, Exhibit 3D; Order No. 35419, Exhibit B.

purposes of calculating tax payments to the government as opposed to when adjustments are made to income tax expense for ratemaking purposes. Unamortized investment tax credits are included as a deduction from investments in assets funded by investors in determining rate base."[144]

The commission finds reasonable the Parties' stipulated average unamortized State investment tax credits (gross) rate base balance of $15,486,000, which amount incorporates adjustments proposed by the Consumer Advocate, and has been unchanged since the commission's Interim Decision and Order.[145]

15.

Prepaid Pension Liability

"In its direct testimony, Hawai'i Electric Light's average prepaid pension liability was calculated as $446,000 based on the recorded December 31, 2015 balance of $496,000 and the estimated December 31, 2016 balance of $397,000[.]"[146]

The Parties subsequently agreed to "an adjusted test year ending balance of $1,370,000, resulting in an average test year balance of $933,000 and an annual amortization of

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[144]Application, HELCO-1904 at 8.

[145]Stipulated Settlement, Exhibit 1 at 66-67.

[146]Stipulated Settlement, Exhibit 1 at 70.

-$274,000[,]" and HELCO "accepted the Consumer Advocate's proposed upward adjustment of the test year average prepaid pension regulatory liability balance by $487,000, from $446,000 to $933,000."[147]

The commission approves this amount as reasonable.

16.

OPEB Regulatory Liability

"The OPEB regulatory liability (or regulatory asset) is the cumulative difference between the actuarially calculated [NPBC] during a rate effective period and the Commission approved postretirement benefits other than pension costs included in rates ('OPEB costs in rates') for that rate effective period, tracked under the OPEB tracking mechanism[.]"[148]

This "mechanism ensures that the OPEB costs recovered through rates are based on the NPBC as reported for financial reporting purposes and that all amounts contributed to the OPEB trust funds are in an amount equal to the actual OPEB costs and are recoverable through rates. . . . As the amount consists of

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[147]Stipulated Settlement, Exhibit 1 at 70.

[148]Application, HELCO-1904 at 8.

funds from non-investors, it is a deduction in the calculation of rate base, as required under the OPEB tracking mechanism."[149]

The Parties stipulated "to the upward adjustment of the average test year OPEB regulatory liability balance by $421,000 from $1,393,000 to $1,814,000."[150]

The commission finds reasonable the Parties' stipulated average OPEB regulatory liability rate base balance of $1,814,000, which has been unchanged since the Interim Decision and Order.

17.

Working Cash

HELCO states that "[w]orking cash is the capital over and above investments in plant and other rate base items to cover the cost of providing service to the Company's customers. It bridges the gap between the time the Company pays for the expenses incurred to provide electric service and the time customers pay for the electric service provided."[151]

According to HELCO, working cash "is included in rate base because it represents an investment that enables the Company to pay suppliers and conduct other business activities necessary

[149]Application, HELCO-1904 at 8.

[150]Stipulated Settlement, Exhibit 1 at 73.

[151]Application, HELCO-1904 at 9.

to provide electric service to consumers without interruption."[152] "Working cash is essential capital necessary for smooth fiscal operations. The inclusion of this essential capital in rate base recognizes the carrying cost to investors of monies that the Company needs to have on hand as a result of gaps in the timing of cash flows through the Company."[153]

The Parties stipulated that they agreed "on all the items included in the working cash calculation and the revenue and payment lag days[,]"[154] such as accepting "the Consumer Advocate's proposal to use only 2016 actual data for determining the 2016 test year estimate for revenue lag of 37.8 days[,]"[155] agreeing to an "O&M non-labor expense lag of 40 days[,]"[156] and excluding "the amortization of regulatory commission expense from the O&M non-labor expenses used in determining the expense lag for O&M non-labor expenses used in the working cash calculation."[157]

The commission's Interim Decision and Order reflected a working cash balance of $1,373,000 at current effective rates, and

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[152]Application, HELCO-1904 at 9.

[153]Application, HELCO-1904 at 9.

[154]Stipulated Settlement, Exhibit 1 at 80.

[155]Stipulated Settlement, Exhibit 1 at 80.

[156]Stipulated Settlement, Exhibit 1 at 81.

[157]Stipulated Settlement, Exhibit 1 at 81.

$1,249,000 at proposed rates.[158] In approving HELCO's request to adjust its interim revenue requirements, and based on the Parties' agreed-upon figures, Order No. 35419 noted a revised amount for working cash of $1,370,000 at current effective rates and $1,351,000 at proposed rates.[159]

The commission approves as reasonable HELCO's test year average working cash balance of $1,370,000 and $1,351,000 at current effective and proposed rates, respectively.[160]

18.

Average Rate Base

The commission approves as reasonable the Parties' test year average rate base of $481,309,000.

19.

Pension and OPEB Tracker Revisions

According to HELCO:

> [T]he Financial Accounting Standards Board's ('FASB') issuance of Accounting Standards Update ('ASU') 2017-07 on March 10, 2017 . . . changes the presentation of NPPC and NPBC on the financial statements and the disclosures required for defined benefit plans. ASU 2017-07, effective beginning in 2018, limits the amount of NPPC and NPBC expense

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[158]See Order No. 34766 at Exhibit B.

[159]Order No. 35419, Exhibit B.

[160]See Order No. 35419, Exhibit B.

> that can be capitalized to only the service cost component. The test year revenue requirements are based on the current accounting, which reflects the aggregate NPPC and NPBC amounts and the aggregate amortization of the regulatory asset in determining the employee benefits transferred rate. Based on ASU 2017-07, where only the service cost portion of the NPPC and NPBC can be capitalized (i.e., included in the portion of employee benefit costs allocated to capital or other projects), the employee benefits transfer rate will be lower than the test year estimates (which will mean a smaller portion of pension and OPEB expense will be capitalized, and a larger amount of pension costs will be expensed.) . . . .[161]

The Parties stipulated "to a modification to the pension and OPEB tracking mechanisms to be in effect from 2018 and until Hawai'i Electric Light's next rate case, to set up a separate regulatory asset to accumulate the non-service cost portion of the test year NPPC and NPBC that was included in the rate of transfer to capital in the test year instead of transferring the amount to capital. The regulatory asset would be amortized to expense over fifteen years, beginning with the effective date in the next rate proceeding."[162]

The commission finds the Parties' stipulated agreement reasonable as it is only an interim measure and that neither Party would be limited from pursuing a longer-term regulatory solution to the capitalization issue in HELCO's next rate case.

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[161]Stipulated Settlement, Exhibit 1 at 73 (footnotes omitted).

[162]Stipulated Settlement, Exhibit 1 at 75.

In addition, HELCO also states that "[c]onsistent with the changes to Hawaiian Electric's pension tracking mechanism, the Company is including as Exhibit 17 of [the April 10, 2018 Revision], its proposed modification to the pension tracking mechanism."[163] In support, HELCO noted this proposal is consistent with the Consumer Advocate's statement that:

> [T]he change in regulatory treatment for the excess pension contribution in the HECO rate case required modifications to the pension tracking mechanism. A review of the Hawaii Electric Light Motion and accompanying exhibits did not reveal comparable revisions to Hawaii Electric Light's pension tracking mechanism. When the Company files supplemental revenue requirement schedules incorporating the change in the proposed amortization from two-years to 18-months for the net Tax Act Savings from January 1, 2018, to the effective date of reduced interim rates and the removal of the amortization of excess pension contribution, Hawaii Electric Light should also file revisions to the pension tracking mechanism consistent with the changes to HECO's pension tracking mechanism.[164]

The commission also finds that, in principle, HELCO's proposed modification to the pension tracking mechanism noted in Exhibit 17 of the April 10, 2018 Revision is reasonable.

However, given these and other revisions, and to promote consistency with Docket No. 2016-0328 and eliminate any ambiguity as to the extent of the stipulated revisions, the commission

[163]April 10, 2018 Revision at 5.

[164]April 10, 2018 Revision at 5.

instructs HELCO to confer with the Consumer Advocate, and submit a proposed revised draft of the pension and OPEB tracking mechanisms that reflects these approved changes, in their entirety, for the commission's review and approval, within thirty (30) days of this Final Decision and Order.

E.

Rate of Return

The Hawaii Supreme Court has stated that "a fair rate of return" and "the reasonableness of rates is not determined by a fixed formula but is a fact question requiring the exercise of sound discretion" by the commission, insofar as "the ratemaking function involves the making of 'pragmatic' adjustments" and "there is a 'zone of reasonableness' within which the commission may exercise its judgment":

> A return is deemed 'fair' or 'reasonable' if it produces a fair rate of return on the rate base.
>
> A fair return is the percentage rate of earnings on the rate base allowed a utility after making provision for operating expenses, depreciation, taxes and other direct operating costs. Out of such allowance the utility must pay interest and other fixed dividends on preferred and common stock. In determining a rate of return, the Commission must protect the interests of a utility's investors so as to induce them to provide the funds needed to purchase plant and equipment, and protect the interests of the utility's consumers so that they pay no more than is reasonable.

> To calculate the rate of return, the costs of each component of capital debt, preferred stock and common equity are weighted according to the ratio each bears to the total capital structure of the company and the resultant figures are added together to yield a sum which is the rate of return.
>
> The proper return to be accorded common equity is the most difficult and least exact calculation in the whole rate of return procedure since there is no contractual cost as in the case of debt or preferred stock. . . .
>
>> Equity capital does not always pay dividends; all profits after fixed charges accrue to it and it must withstand all losses. The cost of such capital cannot be read or computed directly from the company's books. Its determination involves a judgment of what return on equity is necessary to enable the utility to attract enough equity capital to satisfy its service obligations.
>
> . . . .
>
> Questions concerning a fair rate of return are particularly vexing as the reasonableness of rates is not determined by a fixed formula but is a fact question requiring the exercise of sound discretion by the Commission. It is often recognized that the ratemaking function involves the making of "pragmatic" adjustments and that there is no single correct rate of return but that there is a "zone of reasonableness" within which the commission may exercise its judgment.[165]

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[165]HELCO, 60 Haw. at 632-33 and 636, 594 P.2d at 618-20 (citations omitted).

Originally, the Parties stated that HELCO "was not willing to stipulate to an ROE of less than 9.75% for purposes of determining the fair rate of return on rate base, assuming use of the adjusted capital structure, and debt and preferred stock cost rates, included in the Company's rebuttal testimony[,]" and that the Consumer Advocate "was not willing to stipulate to an ROE of more than 9.50% (9.75% less 25 basis points for the impact of decoupling on the ROE) for purposes of determining the fair rate of return on rate base, assuming use of the adjusted capital structure, and debt and preferred stock cost rates, included in the Company's rebuttal testimony."[166]

The commission affirms the determinations previously made in the Interim Decision and Order, and approves for purposes of this Final Decision and Order, a final ROE of 9.50%, the remaining components of the Parties' stipulated capital structure,[167] and the resulting ROR of 7.80%. With respect to the ROE issue, the commission continues to find and conclude:

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[166]Stipulated Settlement, Exhibit 1 at 88. In general, the Parties' opening and reply briefs reiterated the arguments presented in the pre-filed testimonies and other docket filings, the Stipulated Settlement, and the individual statements of probable entitlement.

[167]As stipulated by the Parties, HELCO's adjusted capital structure is: 40.13% long-term debt (weighted cost of 2.17%), 1.86% hybrid securities (weighted cost of 0.13%), 1.31% preferred stock (weighted cost of 0.11%), and 56.69% common equity. See Stipulated Settlement, Exhibit 1 at 88.

[T]he commission finds that HELCO has <u>not</u> demonstrated probable entitlement for its requested ROE of 9.75%, and the resulting ROR of 7.94% and the interim increase in revenues of $11,142,000 at current effective rates.

The commission's determination of a 9.5% ROE is based on the commission's consideration of the evidence in the docket record, the relevant financial conditions and regulatory mechanisms, and the totality of circumstances for HELCO.

The commission observes that a 9.5% ROE is also consistent with the most recent adjudicated rate case for the Hawaiian Electric Companies (i.e., HELCO, HECO, and MECO).

On May 31, 2013, in Docket No. 2011-0092, the commission reduced MECO's and the Consumer Advocate's stipulated 10.0% ROE by 50 basis points and stated that "a 9.50% ROE would have been acceptable" "to appropriately reflect updated economic and financial market conditions of the 2012 Test Year."

In support, the commission noted the Consumer Advocate's testimony that "MECO has lower financial risk than comparable average companies, due to MECO's higher than average common equity ratio (i.e., MECO has a common equity ratio 56.86%, while the electric industry average is 46.40% and the industry median is 45.80%)[,]" and that its ROE recommendation "reflects the lower risk MECO faces as a result of MECO's implementation of the decoupling and other regulatory mechanisms."

The commission finds that the pertinent considerations in Docket No. 2011-0092 are also relevant for HELCO and support the determination of a 9.50% ROE for this interim decision. In addition, the commission observes that even if HELCO's proposed 9.75% ROE was accepted, the commission may nonetheless be inclined to make other "pragmatic adjustments" so that the resulting ROR and interim rate increase are reasonable.[168]

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[168]Order No. 34766 at 22-24 (footnotes omitted).

The commission further observes that a 9.50% ROE is within the range of estimates included in the testimonies and exhibits filed in the docket record, and is also consistent with the stipulated 9.50% ROE (and resulting 7.57% ROR) that the commission recently approved in Docket No. 2016-0328, which is the 2017 Test Year rate case for Hawaiian Electric Company, Inc.

The commission notes that HELCO's 7.80% ROR is more than the 7.57% ROR approved in Docket No. 2016-0328. If the commission were to adopt HELCO's proposed 9.75% ROE, this would increase HELCO's resulting ROR to 7.94%, which the commission finds to be unreasonable in consideration of the evidence in the docket record, the relevant financial conditions and regulatory mechanisms, and the totality of circumstances for HELCO.[169]

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[169]HELCO, 60 Haw. at 635, 594 P.2d at 620 ("In some manner, every utility is unique and individual. No utility has a risk corresponding exactly to that of another. But comparisons between utilities provide an important method to arrive at a fair return on common equity. Therefore, imperfect but reasonable comparisons are permissible."). See also In re Kansas City Power & Light Co., Docket No. 15-KCPW-116-RTS, 324 P.U.R. 4th 173, 183-84 (Sept. 10, 2015) (concluding that a 9.3% ROE, and overall rate of return of 7.4383%, "strikes the proper balance of allowing [utility] to access capital markets while acknowledging the economic impact on ratepayers[,]" and stating that the utility's "proposed 10.3% ROE represents an increase of 80 basis points from its currently approved ROE of 9.5%" and "runs counter to the trends in Kansas and nationwide towards lower ROEs in recognition of historically lower costs of capital").

## F.

### Stipulated Rate Design and Schedule Changes

The commission accepts the Parties' stipulation that (1) "a determination of the most appropriate cost-of-service methodology is not necessary to establish the allocation of the revenue increase in this case, that for . . . the final rate increase in this case, revenue increases to classes shall be allocated based on assigning the dollar amount that results from applying the same percentage increase to revenues at current effective rates for each rate class"; and (2) "cost of service and rate structures for [distributed energy resources ("DER")] customers shall be presented in the DER proceeding rather than in utility rate cases and that the design of cost-of-service analyses in future rate cases should be informed by the Commission decisions in that proceeding."[170]

The Parties further stipulated as to rate design and schedule changes:

> For purposes of reaching a settlement, Hawai'i Electric Light and the Consumer Advocate agree on the following rate schedule changes:
>
> (1) Schedule R single phase minimum charge increased to $25.00 and three phase minimum charge increased to $29.50, and the existing Schedule R kWh rate tiers and price spreads between tiers are retained;

[170]Stipulated Settlement, Exhibit 1 at 89.

(2) Schedule G single phase customer charge increased to $33.00 and single phase minimum charge increased to $50.00;

(3) Schedule G three phase customer charge increased to $57.00 and three phase minimum charge increased to $73.00;

(4) Schedule J single phase customer charge increased to $43.00 and three phase customer charge increased to $69.00;

(5) Schedule P customer charge increased to $450.00 and demand charge increased to $25.00 per billed kW;

(6) Schedule F revenue increase recovered through increase in revised Energy Charge;

(7) Modify the kW criterion for Schedule G customers to move to Schedule J;

(8) Clarify the application of the power factor provision for Schedule J;

(9) Eliminate the provision for "Term of Contract" in Schedule P;

(10) Service Voltage Adjustments for Schedule G, Schedule J, Schedule P, and where such adjustments are provided for, as proposed by the Company, based on test year 2016 assumptions;

(11) Purchased Power Adjustment Clause modified for the Company's proposed tariff language, for allocation factors from the test year 2016 cost of service study, and aligned with eligible purchased power expenses and MWh by rate schedule;

(12) No change to the RBA tariff monthly allocation basis of the distribution of target revenue - - will remain based on kWh sales, in this instance test year 2016 kWh sales;

(13) Modify Rule No. 7 and Rule No. 8 as proposed by the Company;

(14) All rate design changes and rule changes will be implemented when the Final Increase is implemented.

The Parties also agree on the following:

(1) To increase the Schedule R customer charges for single phase and three phase service by $1.00 to $11.50 and $16.00, respectively;

(2) To increase the Schedule J demand charge to $13.00 per billed kW;

(3) To modify the existing residential TOU rates, Schedule TOU-RI, Schedule TOU-R, and Schedule TOU EV based on the cost of service and Schedule R rates proposed for the 2016 test year while retaining their existing structure, in a manner similar to how Hawaiian Electric proposed changes to these rates in their 2017 test year rate case;

(4) To modify the existing commercial TOU rates, Schedule TOU-G, Schedule TOU-J, and Schedule TOU-P to have the same three daily time-of-use rating periods as the proposed revised Schedule TOU-RI. The discounts and premiums relative to the regular rate schedules in the existing Schedules TOU-G, TOU-J, and TOU-P are retained in the proposed revised rates. However, the discounts and premiums are re-distributed among rating periods such that, similar to Schedule TOU-RI, rates per kWh are lowest during the Mid-Day period and highest during the On-Peak period. In addition, for Schedules TOU-J and TOU-P, the demand charge rates and the determination of demand are modified to be the same as what is proposed for the regular Schedule J and Schedule P, respectively.[171]

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[171]Stipulated Settlement, Exhibit 1 at 92-94. With regard to item (13) ("Modify Rule No. 7 and Rule No. 8 as proposed by the Company"), more specifically, the Parties' stipulated to HELCO's

The commission finds that the rate design provisions and schedule changes stipulated to by the Parties are reasonable, insofar as the Stipulated Settlement represents a reasonable global compromise on all of the issues, including rate design.

However, HELCO has not provided proposed comprehensive rate schedules or tariff sheets that reflect the rate designs agreed to in the Stipulated Settlement. As such, it will be necessary to develop proposed final tariff sheets that accurately implement the determinations in this Final Decision and Order for the commission's review and approval.

Because the revenues approved in this Final Decision and Order are different than the revenues assumed in any comprehensive rate schedules or tariff sheets provided to date, matters regarding customer class revenue allocation and the integrity of rate design should be considered in the development of the final tariffs.

HELCO shall collaborate with the Consumer Advocate to develop proposed final tariff sheets that implement the provisions in this Final Decision and Order for the commission's review and

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proposed rule changes for "(1) modification of Tariff Rule No. 7 to include language allowing the Company to assess a $25 charge for same day connection/reconnection service to be consistent with the language in comparable Hawaiian Electric and Maui Electric tariffs and (2) modification of Tariff Rule No. 8 to increase Returned Payment charges from $16 to $25." Stipulated Settlement, Exhibit 1 at 27.

approval, which shall be submitted to the commission within thirty (30) days of this Final Decision and Order.

In the event that consensus on the final tariff sheets cannot be reached, HELCO shall submit proposed final tariff sheets within thirty (30) days and the Consumer Advocate may submit comments on HELCO's proposed final tariff sheets within ten (10) days of the filing of HELCO's proposed final tariff sheets.

G.

Other Tariff Rules or Proposals

1.

Energy Cost Adjustment Clause

HELCO stipulated that it "is not opposed to using a historical basis to establish the test year heat rate, provided that there are means to timely adjust heat rates in the future, such as through annual adjustments, as proposed by the Consumer Advocate, and via triggers to seek approval of changes to the target heat rates[.]"[172]

The Parties stipulated to the following modifications to the ECAC:

(1) "Using the three-year average of recorded sales heat rate, the target sales heat rate for the test year would be

[172]Stipulated Settlement, Exhibit 1 at 13-14.

as follows:" industrial fuel oil -- 14,437 Btu/kWh-sales; and diesel -- 10,515 Btu/kwh-sales.[173]

(2) The Parties agreed to maintain the deadband for industrial fuel oil at plus or minus 100 Btu/kWh-sales, and to widen the deadband for diesel fuel from plus or minus 100 Btu/kWh-sales to plus or minus 200 Btu/kWh-sales.[174]

(3) HELCO "withdraws its proposal for a 50%-50% sharing outside of the deadband."[175]

(4) The Parties "agree that both the Company's proposed trigger for redetermination of target heat rate and the Consumer Advocate's proposed method to adjust the target sales heat rates annually be adopted."[176] HELCO "proposes to add an additional trigger for redetermination of target heat rates where 'the calculated heat rate is outside of the deadband around the target heat rate for a significant period or is expected to remain outside of the deadband for an indefinite period.'"[177] The Consumer Advocate recommends that "target heat rates should be adjusted annually by one-half of the difference between the

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[173]Stipulated Settlement, Exhibit 1 at 14 (footnote omitted).

[174]Stipulated Settlement, Exhibit 1 at 16.

[175]Stipulated Settlement, Exhibit 1 at 16.

[176]Stipulated Settlement, Exhibit 1 at 15.

[177]Stipulated Settlement, Exhibit 1 at 14-15.

prior year's actual sales heat rates and the target heat rates applicable in that year to improve the effectiveness of the recommended deadbands by allowing re-establishment of target sales heat rates on an on-going basis at a level more aligned with current operations."[178]

The commission approves as reasonable the Parties' stipulated modifications to the ECAC, subject to the commission's review and consideration of HELCO's proposed Energy Cost Recovery Clause, as noted below and as set forth in the Final Decision and Order in Docket No. 2016-0328.

With regard to the "separation and removal of fuel expenses and energy expenses from base rates with recovery of these expenses through an appropriately modified ECAC mechanism," the commission's Interim Decision and Order accepted the Parties' agreements that

> such modification may occur "subsequent to the establishment and implementation of final rates in this rate case" and enacted consistent with the commission's prior guidance and in a manner "to have no impact: 1) on revenue allocation and cost-of-service established for the rate classes; and 2) on effective rates per billed kW and per billed kWh and on individual customer bills."[179]

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[178]Stipulated Settlement, Exhibit 1 at 15. The Parties state that HELCO's "proposed trigger addresses extraordinary conditions where realized performance falls outside of the deadband," while the Consumer Advocate's proposal for annual adjustments will improve the effectiveness of the established deadbands. Id.

[179]Order No. 34766 at 29.

However, on behalf of HELCO, in Docket No. 2016-0328, Hawaiian Electric Company, Inc. proposed "to modify the ECAC to be the Energy Cost Recovery Clause ("ECRC"), which recovers the combined total of the fuel and purchased energy costs that were formerly recovered in base rates and in ECAC," and requested "three months to implement the transfer of fuel and purchased energy from base rates to the ECRC subsequent to the implementation of final rates that are established in Hawai'i Electric Light's 2016 test year rate case, Docket No. 2015-0170":

> The Company proposes to modify the ECAC to be the Energy Cost Recovery Clause ("ECRC"), which recovers the combined total of the fuel and purchased energy costs that were formerly recovered in base rates and in ECAC, including fuel expenses that are established at a test year amount in rates which are not subject to adjustment or reconciliation in the ECRC. The amount of the proposed Schedule R base fuel energy charge is removed from each rate schedule's energy charge, but the same amount is included in the ECRC. Where supply voltage, power factor, or network service adjustments exist in tariff, the tariff language has been modified to maintain the basis for the calculation of the adjustments to be the same as they were prior to energy expense separation. This ensures that individual customer bills are not impacted by the energy expense separation, consistent with the Company's intent as described above.
>
> The Company requests to implement the transfer and separation of fuel and purchased energy costs from base rates into the proposed ECRC three months after final rates from this rate case are put into effect. This schedule is advantageous to the customer, as it enables the Company to provide a better illustration to the customer that there would be no bill impact due to the separation of

> fuel and purchased energy from base rates and transfer to the ECRC. It would give the customer time to ascertain the typical bill level after the implementation of final rates, prior to the Company's implementation of the separation of fuel and purchased energy from base rates and transfer to the ECRC.[] The Hawaiian Electric Companies also request three months to implement the transfer of fuel and purchased energy from base rates to the ECRC subsequent to the implementation of final rates that are established in Hawai'i Electric Light's 2016 test year rate case, Docket No. 2015-0170 and in Maui Electric's 2018 test year rate case, Docket No. 2017-0150.[180]

The commission observes that the proposed ECRC tariff appears to be intended to incorporate the operative functions of the ECAC tariff and effectuate the removal of the recovery of fuel and purchased energy costs from base rates, with all such expenses to be recovered through the ECRC.

The commission instructs HELCO and the Consumer Advocate to follow the commission's stated approach to the review and consideration of the proposed ECRC, as set forth in the Final Decision and Order in Docket No. 2016-0328.

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[180]Docket No. 2016-0328, Hawaiian Electric Company, Inc. 2017 Test Year Supplemental Testimonies Exhibits and Workpapers, Book 2, filed on February 14, 2018, ST-30 at 12-14.

## 2.

### Accounting Changes

The Consumer Advocate did not object to HELCO's proposed: (1) change in the approach for determining the level of administrative and general costs to transfer to capital projects in account no. 922 administrative expenses transferred, which HELCO states would be "consistent with the method Hawaiian Electric and Maui Electric currently utilize in allocating administrative costs to construction projects, and billable work[,]" and "promotes inter-generational equity by capitalizing appropriate costs and reduces the 2016 test year revenue requirements for O&M expense";[181] and (2) with regard to O&M expenses associated with capital projects ("OMAC"), adopting the practice to record certain labor costs for T&D replacement projects to capital rather than expense "to be consistent with Hawaiian Electric and Maui Electric."[182]

The commission approves the foregoing as reasonable.

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[181]Application, T-11 at 26-27.

[182]Application, T-11 at 38-40.

### 3. Establishment of a Power Supply Clearing Account and Changes to the Energy Delivery Clearing Account

The Consumer Advocate did not object to HELCO's proposed establishment of a power supply clearing account and changes to the energy delivery clearing account.

HELCO proposed to establish a "Power Supply ('PS') clearing account, to more appropriately allocate costs that are related to a combination of O&M, capital and other work activities[,]"[183] as both "Hawaiian Electric and Maui Electric have used a PS clearing account for many years."[184] HELCO stated:

> The PS clearing is an account on the Company's balance sheet that is used to track certain necessary, reasonable utility costs that are related to a combination of O&M, capital, and other work activities for which the specific work order/project/account is unknown at the time the costs are incurred. These types of costs can be generally characterized as overhead costs associated with the utility's production functional activities. These charges are accumulated in the clearing account and then allocated (cleared) to applicable capital projects, O&M and other activities of the power supply/production functional areas. . . .
>
> By establishing a PS clearing account, production related overheads costs that were previously expensed will be allocated to various capital projects, O&M expense accounts, and other accounts proportionally based on relative total spending to these activities by the power supply functional areas. . . . The activities to which the costs are

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183Application, T-11 at 31.

184Application, T-11 at 32.

> allocated will more appropriately reflect both the direct costs and associated overhead costs incurred. . . .
>
> The Company's customers benefit from the proposed change in at least two ways. First, allocating production related overhead costs to capital projects under the proposed approach results in lower revenue requirements in this rate case proceeding. Second, the proposed change promotes inter-generational equity by allocating over time an appropriate amount of production related overhead costs attributable to the Company's production capital projects.[185]

With respect to the Energy Delivery ("ED") clearing account, HELCO states that it "made two changes to its allocation of charges in the ED clearing account" beginning in 2014:

> First, the Company separated the charges to the ED clearing account between vehicle costs and non-vehicle costs. Second, the allocation basis for non-vehicle costs was changed to be allocated to capital projects, O&M expense accounts and other accounts proportionally based on the relative amount of total transmission and distribution spending on these capital projects, O&M expenses accounts and other accounts. . . .
>
> When the changes were first implemented in 2014, Hawaiian Electric and Maui Electric applied the change to both the ED and PS clearing accounts. Because Hawai'i Electric Light did not have a PS clearing account established at the time, the change only applied to the ED clearing account. However, the allocation methodology associated with the PS clearing account being proposed in this rate case is consistent with the changes implemented for the ED clearing account in 2014. . . . Hawai'i Electric Light and Maui Electric followed the change that was made at Hawaiian

[185]Application, T-11 at 32-33.

Electric to standardize the allocation method among the three companies.[186]

The commission approves as reasonable HELCO's proposed establishment of a power supply clearing account, and HELCO's proposed changes to the energy delivery clearing account.

H.

Statutory Refund Provision

As provided by HRS § 269-16(d), HELCO is required to refund to its customers any amounts collected under the Interim Decision and Order, with interest, that are in excess of the rates, fares, or charges finally determined to be just and reasonable. HRS § 269-16(d) states in relevant part:

> In the event interim rates are made effective, the commission shall require by order the public utility to return, in the form of an adjustment to rates, fares, or charges to be billed in the future, any amounts with interest, at a rate equal to the rate of return on the public utility's rate base found to be reasonable by the commission, received under the interim rates that are in excess of the rates, fares, or charges finally determined to be just and reasonable by the commission. Interest on any excess shall commence as of the date that any rate, fare, or charge goes into effect that results in the excess and shall continue to accrue on the balance of the excess until returned.

The commission observes that the Interim Decision and Order, filed on August 21, 2017, approved an interim revenue

[186]Application, T-11 at 34-35.

requirement of $300,658,000. On August 31, 2017, revised tariff sheets that implemented the interim rate increase took effect.[187]

However, on April 24, 2018, the commission approved HELCO's request that "its interim revenue requirement of $300,658,000 -- previously approved on August 21, 2017, and which reflected an increase of approximately $9,940,000 or 3.42% over revenues at 2016 current effective rates -- be reduced by $9,999,000 to an adjusted interim revenue requirement of $290,659,000[,]" effective in revised tariffs on May 1, 2018.[188]

The commission recognizes that the rates approved in this Final Decision and Order include adjustments to return certain amounts collected in the interim rates that are in excess of the final rates approved herein.

Nonetheless, HELCO's interim revenue requirement of $300,658,000 approved by the Interim Decision and Order on August 21, 2017 (effective in revised tariffs on August 31, 2017),

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[187]Order No. 34772, "APPROVING REVISED TARIFF SHEETS[,]" filed on August 29, 2017.

[188]Order No. 35419 at 1. The commission noted that HELCO's adjusted revenue requirement includes the "Tax Act Implementation Lag of $1,587,000[,]" which "represents the net tax savings from January 1, 2018, the effective date of the 2017 Tax Act, through April 30, 2018," and although such "four-month period is outside of and beyond the 2016 test year period[,]" "HELCO essentially proposes to 'roll-in' this net tax savings amount as part of its 2016 test year rate case, such that ratepayers may receive the benefits in net tax savings retroactive to January 1, 2018, the effective date of the 2017 Tax Act." Id. at 5.

is more than HELCO's adjusted interim revenue requirement of $290,659,000 approved by Order No. 35419 on April 24, 2018 (effective in revised tariffs on May 1, 2018) -- the same amount as HELCO's adjusted final revenue requirement approved by this Final Decision and Order.

Consequently, the commission instructs the Parties to address whether HRS § 269-16(d) requires that any additional "amounts with interest" be returned "in the form of an adjustment to rates, fares, or charges to be billed in the future[,]" and if so, address the appropriate remedy to resolve such issue.[189]

Within ten (10) days of this Final Decision and Order, HELCO shall submit a statement of position on this issue. The Consumer Advocate may submit a response within seven (7) days after the filing of HELCO's statement of position. HELCO may submit a reply statement of position within five (5) days after the filing of the Consumer Advocate's response.

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[189]See also HELCO Statement at 4 ("HRS § [269-16(d)] explicitly provides that the interim increase is subject to refund with interest. Pursuant to HRS § [269-16(d)], in the event that the . . . interim rates are in excess of the final rates approved by the Commission, Hawai'i Electric Light will refund to customers the excess, plus accumulated interest, through a separate rate adjustment[], upon implementation of Commission-approved final rates.[] As a result, Hawai'i Electric Light's customers are protected in the event the interim increase is higher than the final award. . . .").

## III.

## FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. HELCO's 2016 Test Year revenues, expenses, and average depreciated rate base balance, discussed above, and as set forth in the Stipulated Settlement and modified by HELCO's Motion and the April 10, 2018 Revision and the final results of operation schedules attached as Exhibits A and B to this Final Decision and Order, are reasonable and are approved as such.

2. A fair return on common equity, or ROE, for HELCO for the 2016 Test Year is 9.50%. Based on this ROE, the commission approves as fair and reasonable, a rate of return on average rate base of 7.80%.

3. The Parties' stipulated treatment of the impacts of the 2017 Tax Act, as set forth in HELCO's Motion and the April 10, 2018 Revision, and as further provided herein, is reasonable, pending the commission's review of the issue relating to HRS § 269-16(d), as discussed in Section II.H.

4. The commission approves the Parties' stipulations to modify HELCO's pension and OPEB tracking mechanisms. HELCO shall submit proposed revisions of its pension and OPEB tracking mechanisms in their entirety for the commission's review and approval.

5. The commission finds that the terms of the Parties' Stipulated Settlement, as modified by HELCO's Motion and the April 10, 2018 Revision, are approved as just and reasonable. However, the commission's approval of the Parties' agreements, or any of the methodologies used by the Parties in settling the issues governing this proceeding, may not be cited as precedent by any Parties or Participants in future commission proceedings.

## IV.

## ORDERS

THE COMMISSION ORDERS:

1. The commission approves final rate relief for HELCO, as set forth in this Final Decision and Order, including an ROE of 9.50% and a corresponding rate of return on average rate base of 7.80%.

2. The Parties shall submit proposed final tariff sheets consistent with this Final Decision and Order within thirty (30) days of this Final Decision and Order. In the event consensus between the Parties on the final tariff sheets cannot be reached, HELCO shall submit proposed final tariff sheets within thirty (30) days of this Final Decision and Order and the Consumer Advocate may submit comments on HELCO's proposed sheets within ten (10) days of HELCO's filing.

3. Within thirty (30) days of this Final Decision and Order, HELCO shall submit proposed revisions of its pension and OPEB tracking mechanisms, in their entirety, which reflect the approved changes set forth in this Final Decision and Order. The Consumer Advocate may submit comments on HELCO's proposed revisions to the pension and OPEB tracking mechanisms within ten (10) days of HELCO's filing.

4. HELCO and the Consumer Advocate shall follow the commission's stated approach to the review and consideration of the proposed ECRC, as set forth in the Final Decision and Order in Docket No. 2016-0328.

5. HELCO and the Consumer Advocate shall address the issue of whether any "amounts with interest" should be returned "in the form of an adjustment to rates, fares, or charges to be billed in the future," and if so, address the appropriate remedy to resolve such issue, pursuant to HRS § 269-16(d), as discussed in Section II.H., above, as follows: Within ten (10) days of this Final Decision and Order, HELCO shall submit a statement of position on this issue. The Consumer Advocate may submit a response within seven (7) days after the filing of HELCO's statement of position. HELCO may submit a reply statement of position within five (5) days after the filing of the Consumer Advocate's response.

6. Following the events and the submission of filings noted above, the commission will issue order(s) regarding HELCO's final tariffs sheets and their effective date.

DONE at Honolulu, Hawaii JUN 29 2018.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By
Randall Y. Iwase, Chair

By
Lorraine H. Akiba, Commissioner

By
James P. Griffin, Commissioner

APPROVED AS TO FORM:

David S. Taga
Commission Counsel

2015-0170.ncm

DOCKET NO. 2015-0170

HAWAII ELECTRIC LIGHT COMPANY, INC.

RESULTS OF OPERATIONS

2016

($ THOUSANDS)

| | CURRENT EFFECTIVE RATES | ADDITIONAL AMOUNT | APPROVED RATES |
|---|---|---|---|
| Electric Sales Revenue | 289,830 | 1,528 | 291,358 |
| Other Operating Revenue | 888 | 0 | 888 |
| TOTAL OPERATING REVENUES | 290,718 | 1,528 | 292,246 |
| Fuel | 45,996 | | 45,996 |
| Purchased Power | 72,438 | | 72,438 |
| Production | 18,451 | | 18,451 |
| Transmission | 4,367 | | 4,367 |
| Distribution | 12,118 | | 12,118 |
| Customer Accounts | 7,736 | | 7,736 |
| Allowance for Uncoll. Accounts | 446 | | 446 |
| Customer Service | 1,216 | | 1,216 |
| Administration & General | 18,375 | | 18,375 |
| Operation and Maintenance | 181,143 | 0 | 181,143 |
| Depreciation & Amortization | 37,675 | | 37,675 |
| Amortization of State ITC | (598) | | (598) |
| Taxes Other Than Income Tax | 27,024 | 136 | 27,160 |
| Interest on Customer Deposits | 180 | | 180 |
| Income Taxes | 8,787 | 359 | 9,145 |
| TOTAL OPERATING EXPENSES | 254,211 | 494 | 254,705 |
| OPERATING INCOME | 36,507 | 1,034 | 37,541 |
| AVERAGE RATE BASE | 481,328 | (19) | 481,309 |
| RATE OF RETURN ON AVERAGE RATE BASE | 7.58% | | 7.80% |

DOCKET NO. 2015-0170
HAWAII ELECTRIC LIGHT COMPANY, INC.
ANALYSIS OF RATE INCREASE

2016
($ THOUSANDS)

| | AMOUNT | % INCREASE |
|---|---|---|
| RATE INCREASE: | | |
| ELECTRIC REVENUES | 1,528.0 | 0.53% |
| OTHER REVENUES | - | |
| TOTAL INCREASE | 1,528.0 | 0.53% |

DOCKET NO. 2015-0170

HAWAII ELECTRIC LIGHT COMPANY, INC.

COMPUTATION OF TAXES OTHER THAN INCOME TAX

2016

($ THOUSANDS)

| | RATE | CURRENT EFFECTIVE RATES | ADJUSTMENT | APPROVED RATES |
|---|---|---|---|---|
| Electric Sales Revenue | | 289,830 | 1,528 | 291,358 |
| Other Operating Revenue | | 888 | 0 | 888 |
| OPERATING REVENUES | | 290,718 | 1,528 | 292,246 |
| Public Service Tax | 5.885% | 17,083 | 90 | 17,172 |
| PUC Fees | 0.500% | 1,451 | 8 | 1,459 |
| Franchise Tax | 2.500% | 7,235 | 38 | 7,273 |
| Payroll Tax | | 1,256 | | 1,256 |
| TOTAL TAXES OTHER THAN INCOME TAX | | 27,024 | 136 | 27,160 |

DOCKET NO. 2015-0170
HAWAII ELECTRIC LIGHT COMPANY, INC.
COMPUTATION OF INCOME TAX EXPENSE

2016
($ THOUSANDS)

| | CURRENT EFFECTIVE RATES | ADJUSTMENT AMOUNT | APPROVED RATES |
|---|---|---|---|
| Operating Revenues | 290,718 | 1,528 | 292,246 |
| Operating Expenses: | | | |
| Fuel and Purchased Power | 118,434 | | 118,434 |
| Other Operation & Maintenance Expense | 62,709 | 0 | 62,709 |
| Depreciation | 37,675 | 0 | 37,675 |
| Amortization of State ITC | (598) | 0 | (598) |
| Taxes Other than Income | 27,024 | 136 | 27,160 |
| Interest on Customer Deposits | 180 | 0 | 180 |
| Total Operating Expenses | 245,424 | 136 | 245,560 |
| Operating Income Before Income Taxes | 45,294 | 1,392 | 46,686 |
| Tax Adjustments: | | | |
| Interest Expense | (11,075) | | (11,075) |
| Meals and Entertainment | 10 | | 10 |
| | (11,065) | 0 | (11,065) |
| Taxable Income at Ordinary Rates | 34,229 | 1,392 | 35,621 |
| Income Tax Expense at Ordinary Rates | 8,815 | 359 | 9,173 |
| Tax Benefit of Domestic Production Activities Deduction | 0 | | 0 |
| R&D Credit | 28 | | 28 |
| TOTAL INCOME TAX EXPENSE | 8,787 | 359 | 9,145 |

DOCKET NO. 2015-0170

HAWAII ELECTRIC LIGHT COMPANY, INC.

AVERAGE RATE BASE

2016

($ THOUSANDS)

| | BEGINNING BALANCE | END OF YEAR BALANCE | AVERAGE BALANCE |
|---|---|---|---|
| Investments in Assets | | | |
| Net Cost of Plant in Service | 649,484 | 667,682 | 658,583 |
| Property Held for Future Use | 987 | 755 | 871 |
| Fuel Inventory | 6,021 | 6,021 | 6,021 |
| Materials & Supplies Inventories | 7,082 | 7,082 | 7,082 |
| Regulatory Asset - ASC 740 | 11,463 | 11,477 | 11,470 |
| Pension Regulatory Asset | 22,912 | 26,421 | 24,667 |
| Contribution in Excess of NPPC | 1,524 | 1,524 | 1,524 |
| Pension Asset | 0 | 0 | 0 |
| Deferred System Dev. & Other Costs | 4,848 | 4,169 | 4,509 |
| Total Investments in Assets | 704,321 | 725,131 | 714,726 |
| Funds from Non-Investors | | | |
| Unamortized CIAC | 95,298 | 97,211 | 96,255 |
| Customer Advances | 11,172 | 11,259 | 11,216 |
| Customer Deposits | 3,224 | 2,788 | 3,006 |
| Accumulated Def. Income Taxes | 101,743 | 110,377 | 106,060 |
| Unamort State ITC (Gross) | 15,184 | 15,787 | 15,486 |
| Pension Reg Liability (Prepaid) | 496 | 1,370 | 933 |
| OPEB Reg Liability | 1,548 | 2,080 | 1,814 |
| Total Deductions | 228,665 | 240,872 | 234,769 |
| Difference | | | 479,957 |
| Working Cash at Current Effective Rates | | | 1,370 |
| Rate Base at Current Effective Rates | | | 481,328 |
| Change in Rate Base - Working Cash | | | (19) |
| Rate Base at Approved Rates | | | 481,309 |

DOCKET. NO. 2015-0170
HAWAII ELECTRIC LIGHT COMPANY, INC.
WORKING CASH ITEMS

2016
($ THOUSANDS)

| | A | B | C | D |
|---|---|---|---|---|
| | COLLECTION LAG (DAYS) | PAYMENT LAG (DAYS) | COLLECTION LAG (DAYS) (A - B) | ANNUAL AMOUNT |
| ITEMS REQUIRED WORKING CASH | | | | |
| Fuel Oil Purchases | 37.8 | 15.6 | 22.2 | 45,996 |
| O & M Labor | 37.8 | 10.7 | 27.1 | 18,106 |
| Purchased Power | 37.8 | 38.2 | (0.4) | 72,438 |
| O & M Non-Labor & Other | 37.8 | 31.5 | 6.3 | 41,800 |
| Revenue Taxes | 37.8 | 86.2 | (48.4) | 25,768 |
| Income Taxes - Current Effective Rates | 37.8 | 39.0 | (1.2) | (1,050) |
| Income Taxes - Approved Rates | 37.8 | 39.0 | (1.2) | (691) |

| | E | F | G | H |
|---|---|---|---|---|
| | AVERAGE DAILY AMOUNT (D/365) | WORKING CASH (CURR EFF RATES) (C * E) | AVERAGE DAILY AMOUNT | WORKING CASH (APPROVED RATES) (C * G) |
| ITEMS REQUIRING WORKING CASH | | | | |
| Fuel Oil Purchases | 126 | 2,798 | 126 | 2,798 |
| O & M Labor | 50 | 1,344 | 50 | 1,344 |
| Purchased Power | 198 | (79) | 198 | (79) |
| ITEMS THAT PROVIDE WORKING CASH | | | | |
| O & M Non-Labor & Other | 115 | 721 | 115 | 721 |
| Revenue Taxes | 71 | (3,417) | 71 | (3,435) |
| Income Taxes - Current Effective Rates | (3) | 4 | | |
| Income Taxes - Approved Rates | (2) | | (2) | 2 |
| Total | | 1,370 | | 1,351 |
| Change in Working Cash | | | | (19) |

<u>CERTIFICATE OF SERVICE</u>

The foregoing order was served on the date of filing by mail, postage prepaid, and properly addressed to the following parties:

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DIVISION OF CONSUMER ADVOCACY
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