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PUBLIC UTILITIES  
COMMISSION

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Transmittal of	)	
	)	
HAWAIIAN ELECTRIC COMPANY, INC.,	)	Transmittal Nos. 17-02, 17-03, 17-04
HAWAII ELECTRIC LIGHT COMPANY, INC.,	)	(Decoupling)
MAUI ELECTRIC COMPANY, LIMITED	)	
	)	Effective Date: June 1, 2017
For Approval to Modify the Revenue	)	
Balancing Account Rate Adjustment in its	)	
Revenue Balancing Account Provision Tariff.	)	

**DIVISION OF CONSUMER ADVOCACY'S**  
**STATEMENT OF POSITION**

Pursuant to the Hawaii Public Utilities Commission's ("Commission's") Rules of Practice and Procedure, Hawaii Administrative Rules ("HAR") §§ 6-61-61 and 6-61-62, and various decisions, orders, and rulings of the Commission relevant to the annual decoupling tariff transmittals,<sup>1</sup> the Division of Consumer Advocacy ("Consumer Advocate") offers these comments for the Commission's consideration based upon the review that the Consumer Advocate has been able to conduct thus far

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<sup>1</sup> See, for example, Final Decision And Order And Dissenting Opinion of Leslie H. Kondo, Commissioner, Docket No. 2008-0274 (filed on Aug. 31, 2010) ("2008-0274 Decision and Order"); Decision and Order No. 31908, Docket No. 2013-0141 (filed on Feb. 7, 2014); Order No. 32735, Docket No. 2013-0141 (filed on Mar. 31, 2015); Order No. 34514, Docket No. 2013-0141 (filed on Apr. 27, 2017); Order No. 32866, Tariff Transmittal Nos. 15-03 (Hawaiian Electric Company, Inc. ("Hawaiian Electric")), 15-04 (Hawaii Electric Light Company, Inc. ("Hawaii Electric Light")), and 15-05 (Maui Electric Company, Limited ("Maui Electric")) (Consolidated) (filed on May 28, 2015); Order No. 34503, Tariff Transmittal Nos. 17-02 (Hawaiian Electric), 17-03 (Hawaii Electric Light), and 17-04 (Maui Electric) (Decoupling) (Consolidated) (filed on Apr. 19, 2017).

of the decoupling rate adjustment filings submitted by Hawaiian Electric Company, Inc. ("Hawaiian Electric"), Hawaii Electric Light Company, Inc. ("Hawaii Electric Light"), and Maui Electric Company, Limited ("Maui Electric") (collectively, the "Hawaiian Electric Companies") on March 31, 2017. As in recent prior years, the Consumer Advocate is again submitting its Statement of Position on a consolidated basis for all three utilities.

This year, the Hawaiian Electric Companies seek to implement RBA Rate Adjustments to recover the following amounts within the June 1, 2017, through May 31, 2018, recovery period:<sup>2</sup>

<b>Summary of Transmittals 17-02, 03, 04</b>		<u>Proposed RBA, RAM and Total Increases</u>		
		Cumulative	Incremental	% Increase
Hawaiian Electric Company, Inc.	RBA	\$47.4	\$(2.4)	0%
	RAM	\$101.1	\$12.7	2%
	Total	\$148.5	\$10.3	2%
Hawaii Electric Light Company, Inc.	RBA	\$3.3	\$(2.5)	-2%
	RAM	\$11.8	\$3.3	2%
	Total	\$15.1	\$0.8	0%
Maui Electric Company, Limited (Revised)	RBA	\$2.9	\$(0.2)	0%
	RAM	\$14.4	\$1.8	1%
	Total	\$17.3	\$1.6	1%
Combined Hawaiian Electric Companies	RBA	\$53.6	\$(5.1)	-1%
	RAM	\$127.3	\$17.8	2%
	Total	\$180.9	\$12.7	1%

<sup>2</sup> The RBA tariff states, "The recovery through the RBA Rate Adjustment of a RAM Revenue Adjustment calculated for a calendar year that is also a rate case test year shall terminate on the effective date of tariff rates that implement a Commission approved base revenue level authorized in the Company's test year rate case." Similarly, the RAM tariff states, "The RAM Revenue Adjustment established for a RAM Period calendar year that is also a rate case test year shall terminate on the effective date of tariff rates that are implemented pursuant to a Commission Decision & Order for that test year, unless otherwise specified below." Therefore, the amounts to be recovered by Hawaii Electric Light and Hawaiian Electric for the RAM component of the RBA rate will be modified by interim rate orders that are expected to be issued in pending rate case proceedings, Docket Nos. 2015-0170 and 2016-0328, respectively.

This table illustrates several points for consideration by the Commission. First, the RBA and Rate Adjustment Mechanism (“RAM”) amounts are calculated on a cumulative rather than an incremental basis. In order to determine the “incremental” amounts of change now being proposed, it is necessary to compare the absolute amounts proposed in the Hawaiian Electric Companies’ 2017 tariff transmittals to the cumulative RBA and RAM increases that were approved last year. Second, the RBA recovery rates approved last year were again large enough to cause a net decline in the all three utilities’ RBA balances during the recovery period. This outcome permits a further reduction in the required recovery rate for the RBA balance for all three of the utilities.<sup>3</sup> This favorable result suggests that the rate of sales declines experienced by the Hawaiian Electric Companies continues to stabilize, relative to sales declines in the earlier years of decoupling. Finally, when the reduced RBA recovery amounts are combined with the proposed RAM increases for the three utilities, the Hawaiian Electric Companies have collectively proposed a \$12.7 million, or about one percent, overall incremental revenue increase. This year, the RAM Cap served to constrain only the RAM increase that would otherwise be implemented for Hawaiian Electric, reducing that amount by \$27 million.<sup>4</sup> In contrast, the traditionally calculated RAM increase for Hawaii

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<sup>3</sup> This change in the RBA balance during 2016 can be observed at Schedule B for each utility. Amounts recovered through Commission-approved RBA rates can be observed in column (f) of Schedule B, while new monthly deferrals for the monthly difference between target and recorded-adjusted revenues can be observed in the “Variance to RBA” amounts in column (e).

<sup>4</sup> At Hawaiian Electric Schedule A1, the traditionally determined cumulative RAM was reduced from \$128.1 million to \$101.1 million by the RAM Cap.

Electric Light and Maui Electric were both below the calculated RAM Cap, such that no Cap constraint was imposed upon Hawaii Electric Light or Maui Electric.<sup>5</sup>

## **I. BACKGROUND.**

Prior to 2014, RBA rate adjustments were prepared by the Hawaiian Electric Companies in general compliance with the Commission's initial decoupling rulings within 2008-0274 Decision and Order, which provided for implementation of annual RBA rate revisions after review and comment by the Consumer Advocate and Commission. The initial Commission-approved decoupling framework was modified on an interim basis by the Commission's Decision and Order No. 31908, issued in Docket No. 2013-0141 on February 7, 2014. The modifications at that time limited increases in the Rate Base RAM to 90 percent of the calculated amount above the prior year Rate Base RAM and mandated reductions in the RBA interest rate, with interest to be applied on a net-of-income taxes basis.<sup>6</sup> Then, with the issuance of Order No. 32735, further modifications to the decoupling regime were implemented, including the insertion of a RAM Cap mechanism, limiting annual increases in target revenues through the RAM

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<sup>5</sup> Schedule A1, lines 1 through 7 for Hawaii Electric Light summarizes the traditionally calculated RAM of \$11.8 million, which is below the RAM Cap of \$12.6 million summarized at lines 8 through 10. Similarly, Maui Electric revised Schedule A1, lines 1 through 6 summarizes the traditionally calculated RAM of \$14.4 million, which is below the RAM Cap of \$15.5 million summarized at lines 7 through 9.

<sup>6</sup> Decision and Order No. 31908, at Ordering paragraph 3, states, "The Commission orders the HECO Companies to revise their decoupling tariffs to provide that the amount of any "Rate Base RAM - Return on Investment Adjustment" ("Rate Base RAM Adjustment") applied to the determination of Target Revenues and the RBA Rate Adjustment in accordance with the existing RAM tariffs shall include the entire effective Rate Base RAM Adjustment from the prior year, plus ninety percent of the amount that the current RAM Period Rate Base RAM Adjustment exceeds the Rate Base RAM Adjustment from the prior year. If the prior year is a rate case test year, the amount of the Rate Base RAM applied to the determination of Target Revenues and the RBA Rate Adjustment shall be ninety percent of the RAM Period Rate Base RAM Adjustment."

mechanism to not exceed the percentage change in Gross Domestic Product Price Index ("GDPPI").

A series of complex implementation issues arising from Order No. 32735 were presented for consideration by the Commission in the 2015 decoupling transmittals. These issues involved how to properly determine and apply the basis for the new RAM Cap, including annualization of depreciation and amortization expense, treatment of the interim 90 percent rate base factor within the basis for the Cap, accounting consistency problems caused by changed clearing account procedures that shifted costs from expense to capital and whether historical or projected GDPPI values should be used to quantify the Cap percentage. Order No. 32866 addressed each of these issues and has been relied upon by the Hawaiian Electric Companies and the Consumer Advocate in preparing and evaluating the pending RBA/RAM filings.

The Hawaiian Electric Companies have calculated and applied the RAM Cap for 2017 at 2.0 percent above prior year 2016 target revenues within the pending tariff transmittals.<sup>7</sup> The use of forecasted rather than historical measures of GDPPI growth for this purpose was approved by the Commission in Order No. 32866 as one of several clarifications of the prior decoupling investigation Order No. 32735.<sup>8</sup> Notably, the cumulative escalations resulting from use of the forecasted GDPPI used in the RAM filings would not be different if actual GDPPI rates of change had been employed in

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<sup>7</sup> See Schedule J, line 4, and WP-C-002 where the RAM Cap percentage is documented for each of the Hawaiian Electric Companies, based upon the consensus projected growth in GDPPI published by Blue Chip Economic Indicators. The RAM Cap dollar amount is then applied within new Schedule A1 at line 5.

<sup>8</sup> Order No. 32866, Tariff Transmittal Nos. 15-03 (Hawaiian Electric), 15-04 (Hawaii Electric Light), and 15-05 (Maui Electric) (Consolidated), at 16.

place of forecasts.<sup>9</sup> Other adjustments to the RAM Cap basis were approved by the Commission in Order No. 32866 that also impact the determination of the RAM Cap within the utilities' 2017 tariff transmittals. These include annualization of depreciation and amortization based upon year-end 2014 plant in service balances<sup>10</sup> and an adjustment imposed to recognize the expense reduction impact of changes to the Hawaiian Electric Companies' Energy Delivery and Power Supply clearing accounts, in determining the RAM increase and RAM Cap.<sup>11</sup> The Consumer Advocate has verified that the Hawaiian Electric Companies have properly reflected these adjustments in determining the 2016 Target Revenues subject to escalation and the RAM Cap for 2017 within Schedule J of the tariff transmittals.<sup>12</sup>

On May 5, 2017, the Hawaiian Electric Companies filed certain "Maui Electric Revisions to RBA Rate Adjustment Tariff Filing" to remove the costs of the Kuihelani Substation from the Rate Base RAM calculation because of a change to the estimated in service date of that major capital project from August 2017 to October 2017 due to, "delays in securing the outside contractor to perform the work." This problem was acknowledged by Maui Electric in its response to Informal CA-IR-33, where Maui Electric declined to provide the requested monthly breakdown of costs and delivery dates for major components, indicating its removal of project costs from the proposed

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<sup>9</sup> See the Hawaiian Electric Companies' response to Informal CA-IR-19.

<sup>10</sup> Order No. 32866, Tariff Transmittal Nos. 15-03 (Hawaiian Electric), 15-04 (Hawaii Electric Light), and 15-05 (Maui Electric) (Consolidated), at 7-9. This adjustment was approved after the Commission clarified its intent to use 2014 year-end actual plant in service balances to calculate depreciation and amortization expense in determining the RAM Cap.

<sup>11</sup> Id. at 11-15.

<sup>12</sup> See Schedule J, at lines 2 and 6, with further breakdown in Notes 1 and 2.

RAM and stating, “[d]etails of the project cost can be provided when the project is completed and the Company requests cost recovery of the project.” The Consumer Advocate concurs in the filed downward revision to the Maui Electric Rate Base RAM in 2017 to remove the Kuihelani Substation project costs.

Two specific adjustments are proposed by the Consumer Advocate to the RAM increases calculated within the Hawaiian Electric Companies’ transmittals. The first adjustment would remove Hawaiian Electric’s proposed inclusion of Enterprise Resource Planning / Enterprise Asset Management (“ERP/EAM”) hardware investments that are included as a Major Capital Project addition in Schedule D3. Because of the RAM Cap applicable to Hawaiian Electric’s RAM in 2016, the removal of this investment does not impact Hawaiian Electric’s proposed RBA rate. The second adjustment removes costs associated with Maui Electric’s Lanai Combined Heat and Power (“CHP”) investment from rate base, which does impact the RAM increase and resulting RBA rate proposed by Maui Electric. These adjustments are described in detail in the Discussion section below.

Several RAM and RBA administrative issues are raised in the Hawaiian Electric Companies’ tariff transmittals submitted in 2017. First, a small one-time credit correction to the 2013 Hawaiian Electric Earnings Sharing Credit calculation is proposed because of Hawaiian Electric’s discovery of an overstatement of recorded interest expense that understated the calculated earnings sharing credit to ratepayers in that year. Then, a more substantive edit to the RAM tariff is proposed to formalize the continued use of updated actual capital structure balances and debt costs within Schedule H that is used to calculate RAM Earnings Sharing Revenue Credits each

year.<sup>13</sup> Next, the Hawaiian Electric Companies state their agreement with the Consumer Advocate's earlier recommendation to cease the extensive manual analyses of customer billing adjustments and have proposed edits to the RBA tariff to delete existing language regarding the correction of individual billing errors.<sup>14</sup> Additionally, the Hawaiian Electric Companies formally commit to not seek recovery through future RBA rates of the reduced revenues resulting from Commission approval and implementation of the Special Medical Needs Pilot Program ("SMNPP") in Transmittal No. 17-01.<sup>15</sup> Finally, with the expiration of temporary RAM acceleration accruals approved as part of a Settlement Agreement approved by the Commission in Docket No. 2008-0083, RBA tariff language has been removed that referenced that Settlement Agreement. The Consumer Advocate has reviewed and is in general agreement with these changes, as more fully discussed under "Administrative Issues" in the Discussion section that follows.

## **II. DISCUSSION.**

The Hawaiian Electric Companies' calculation of proposed RBA Rate Adjustments in 2017 again includes two elements, the recovery of December 31, 2016 RBA balances and the RAM calculated (or capped) increases to such target revenues. As noted above, proposed rate reductions are needed for the RBA recovery component of the overall RBA Rates for all three utilities, because recovery of last year's

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<sup>13</sup> See Transmittal 17-02, at 17, "Earnings Sharing Calculation Issues."

<sup>14</sup> Id. at 18, "Customer Billing Adjustments."

<sup>15</sup> Id. at 19, "Special Medical Needs Pilot Program."



(December 2015) recorded RBA balances has more than offset new RBA deferrals representing under-recovery of targeted levels of during 2016. As of December 31, 2016, the accumulated RBA balance to be recovered represents a cumulative revenue shortfall of \$47.4 million for Hawaiian Electric, \$3.3 million for Hawaii Electric Light, and \$2.8 million for Maui Electric Company.<sup>16</sup>

With respect to the RAM element of the RBA rate adjustment, for 2017, the Hawaiian Electric Companies have proposed incremental RAM increases of \$12.7 million for Hawaiian Electric, \$3.3 million for Hawaii Electric Light, and \$1.8 million for Maui Electric, driven by calculated increases in the O&M RAM, the Rate Base RAM – Return on Investment and the Depreciation & Amortization RAM Expense for each company, with RAM Cap limitations for only Hawaiian Electric.<sup>17</sup>

#### **A. REVIEW OF THE REVENUE BALANCING ACCOUNT.**

The revenue balancing account is maintained to accumulate the differences that occur each month between: 1) the target level of base revenues that the utility has been authorized to charge, and 2) the comparable amount of monthly recorded adjusted revenues that were actually earned and charged to customers. The revenue balancing

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<sup>16</sup> See Schedule A, at line 3. These amounts include revenue taxes added to the recorded RBA balances at December 31, 2016, as set forth at Schedule B for each utility.

<sup>17</sup> See Schedule A (and supporting Schedule A1), where lines 1 through 3 summarize the RBA Balance recovery calculations and lines 4 through 7 summarize the RAM amounts to be included in the RBA Revenue Adjustment. Both the RBA and RAM adjustments are cumulative and must be compared to the previous year's RBA adjustment calculations to determine the "net" adjustment to the RBA adjustment, because the 2015 RBA Rate Adjustments serves to replace the currently effective 2014 RBA Rate. Schedules A1, J, and K are used to calculate and implement the RAM Cap, with supporting workpapers underlying the Schedule J and Schedule K input amounts.

process is relatively simple to understand in concept and has been succinctly defined within the RBA Tariff.<sup>18</sup>

Unfortunately, considerable complexity is involved in isolating the amount of recorded adjusted base revenue that was actually earned from serving customers each month, so as to exclude each element of non-base revenues and to properly restate for billing adjustments and error corrections impacting current and prior periods. Contributing to this complexity is the necessary inclusion of monthly accounting accruals and reversals for estimated unbilled revenues that are recorded in addition to all of the actual billed-basis revenue transactions and adjustments, because of the requirement within Generally Accepted Accounting Principles for each of the Hawaiian Electric Companies to report financial results on an accrual-basis of accounting. RBA accounting is limited to base rate revenues. Therefore, it is necessary to isolate and remove the revenues associated with each of the many other revenue tracking mechanisms that have been authorized by the Commission for separate recovery of fuel, purchased power, energy efficiency funding, DSM/IRP, Big Wind / REIP, and other targeted cost recoveries which result in distinct billed and unbilled revenues each month to derive the residual amounts of "recorded adjusted" base revenues subject to RBA reconciliation. A high-level summary of the many complex elements of this monthly

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<sup>18</sup> According to Paragraph A: PURPOSE within the Revenue Balancing Account ("RBA") Provision tariff, "The purpose of the Revenue Balancing Account ("RBA") is to record: 1) the difference between the Hawaiian Electric Company's target revenue and recorded adjusted revenue, and 2) monthly interest applied to the simple average of the beginning and ending month balances in the RBA." In paragraph C, a single sentence defines recorded adjusted revenues, stating, "The recorded adjusted revenue is defined to include the electric sales revenue from authorized base rates, plus revenue from any authorized interim rate increase, plus revenue from any RBA rate adjustment, but excluding revenue for fuel and purchased power expenses, IRP/DSM, any Commission Ordered one-time rate refunds or credits or other surcharges, and adjusted to remove amounts for applicable revenue taxes."

calculation of recorded adjusted revenues can be observed within Schedule B2 of the decoupling template calculation that is submitted by each of the Hawaiian Electric Companies in support of the proposed annual RBA rate adjustment. The Commission's recent decision in Order No. 34514 to remove all test year fuel expenses from base rates, for recovery entirely through appropriately modified energy cost adjustment mechanisms in the pending and subsequent general rate cases for the Hawaiian Electric Companies will aid in needed simplification of RBA accounting for recorded adjusted revenues on Schedule B2.<sup>19</sup>

Because of this complexity and the potential for significant errors, the Hawaiian Electric Companies have continued to maintain detailed reporting and internal review requirements to help ensure that the complex entries made each month to the RBA account are accurate and complete. Detailed monthly workpaper "Packets" are prepared to document Hawaiian Electric's analysis in support of the RBA entries that are recorded each month, as included within pages 9A, 9A.1, and 9A.2 of the Monthly Financial Report that is submitted to the Commission. These monthly RBA information Packets are submitted to the Consumer Advocate and contain written responses to prescribed information requests that highlight any changes in procedures, billing errors or corrections, or other unusual transactions impacting the RBA entries or balance. Hawaiian Electric has also maintained its internal review and data validation processes to reduce the risk of errors in the recording of revenues that are subject to decoupling reconciliation. In addition, periodic internal audit reviews and annual agreed upon

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<sup>19</sup> See Order No. 34514, Docket No. 2013-0141, at 87. See also lines 39, 40, 56 and 57 on Hawaiian Electric Schedule B2, from which it is presently required to extract manually calculated monthly amounts of fuel and purchased energy costs being recovered through base rates.

review procedures performed by Hawaiian Electric's external auditor are undertaken to ensure the integrity of RBA accounting procedures of the Hawaiian Electric Companies.

The Consumer Advocate is continuing to review the RBA calculations within Hawaiian Electric's decoupling filing, the monthly informational packets and responses to informal information requests, but has at this time identified no needed adjustments to the December 31, 2016 recorded balances as submitted by the Hawaiian Electric Companies.

#### **B. REVIEW OF RAM – CONSUMER ADVOCATE PROPOSED ADJUSTMENTS.**

The Hawaiian Electric Companies' proposed RAM Revenue Adjustment amount is comprised of the O&M RAM, Rate Base RAM – Return on Investment, and the Depreciation and Amortization RAM Expense, as summarized on Schedule A in the Hawaiian Electric Companies' tariff transmittal. Starting last year, the overall RAM adjustment each year is to be limited by the RAM Cap approved by the Commission in Order No. 32735, which serves to limit overall RAM increases to the level of general inflation, as measured by forecasted GDPPI.

Based upon the Consumer Advocate's review to date, there appear to be only two exceptions to the Hawaiian Electric Companies' traditional RAM calculations for 2016, including the RAM Cap limitations, to be in general compliance with the tariff and are based upon verified input data and appropriate computations.

**1. ERP/EAM HARDWARE (Hawaiian Electric Transmittal No. 17-02).**

Hawaiian Electric's RAM Rate Base Adjustment, at Schedule D1 (line 31) and supported by Schedule D3, sets forth 2017 Major Project Additions that include \$2,590,000 for ERP/EAM Hardware. This amount for the ERP/EAM Hardware investment is only included within the end of period rate base.

Noting the estimated August 2017 ERP/EAM hardware project in-service date indicated on Hawaiian Electric Schedule D3, Informal CA-IR-27 cited Hawaii Electric Light's response to CA-IR-66(a) in the pending rate case (Docket No. 2015-0170), which states in part:

Pursuant to D&O 33861, Ordering Paragraph 2.F., on September 9, 2016, the [Hawaiian Electric] Companies filed a detailed and updated project timeline for completing the ERP/EAM Project. In the filing, the Companies indicate that they plan to start the Implementation Project in January 2017 and are targeting to go-live in October 2018.

Informal CA-IR-27 then requested Hawaiian Electric to reconcile the August 2017 hardware in-service date with the stated "go-live" date of October 2018. In response, Hawaiian Electric indicated that the August 2017 ERP/EAM hardware in-service date is for servers to be used to build and configure the ERP/EAM system in test mode stating, "This event represents the receipt and testing of the servers and does not indicate that the Implementation will go live at that point in time."

In Docket No. 2014-0170, Decision and Order 33861 ("D&O 33861" dated August 11, 2016) set forth the Commission's position on these hardware costs at ordering paragraphs 2-4:

2. Approves the Companies' request to commit funds for the ERP/EAM Project's hardware costs, in the amount of \$2,590,000 under Option A, exclusive of customer contributions (Updated Request No. 2).
3. Approves the Companies' request to accrue AFUDC, currently estimated at \$5,710,000 under Option A, on the non-Expense Items (such as software configuration, software interface, coding, installation hardware and testing), beginning on the date of the Decision and Order issued today, and continuing until Go-Live (Updated Request No. 3B).
4. Approves the Companies' request to amortize the total deferred costs, including any accrued AFUDC, over a twelve-year period, beginning upon Go-Live, with the inclusion of the unamortized amounts, including AFUDC, in rate base (Request No. 3C).

Further, D&O 33861 at 57-58 also found that "AFUDC shall be limited to the 1.75% short-term debt rate adopted by the [C]ommission in In re Hawaiian Elec. Co., Inc., Docket No. 2010-0080 ("Docket No. 2010-0080"), [Hawaiian Electric]'s 2011 test year rate case. [footnote omitted]."

Considering that the Commission has previously addressed this issue, and approved the ERP/EAM hardware costs and specified that non-Expense installation hardware and testing costs should continue to accrue AFUDC at 1.75% until Go-Live, the Consumer Advocate recommends that the \$2,590,000 of ERP/EAM hardware costs be removed from the Rate Base RAM. This treatment would be consistent with D&O 33861 since the overall project is not estimated to Go-Live until October 2018. If, however, the Commission declines to require this adjustment, Hawaiian Electric should be required to verify that AFUDC accrual on the ERP/EAM hardware has been terminated and there should be clear measures to preclude the possibility of the Hawaiian Electric Companies being able to both continue the AFUDC accrual as well as receiving rate base treatment in future rate case proceedings.

Because the RAM increases for Hawaiian Electric is constrained by the RAM Cap based upon GDPPI changes, the required rate base adjustment to remove the ERP/EAM hardware costs from rate base has no impact on the RBA/RAM increase set forth on Hawaiian Electric Schedule A.<sup>20</sup>

## **2. LANAI CHP (MECO Transmittal No. 17-04).**

As discussed previously, Maui Electric revised its original March 31, 2017, RBA Rate Adjustment in Transmittal No. 17-04 on May 5, 2017. The following Lanai CHP discussion generally applies to both MECO's original and revised transmittals.

The RAM Rate Base Adjustment includes, within the beginning and end of period rate base at Maui Electric Schedule D1 (at Note 1), amounts for the Lanai CHP within net plant at December 31, 2016 (\$3,500,000 gross plant and \$554,000 accumulated depreciation). The response to Informal CA-IR-32 explains that the Lanai CHP addition to rate base was included in the Company's 2012 test year rate case (Docket No. 2011-0092)<sup>21</sup> allowing rate base recognition of the Lanai CHP system plant investment of \$3.5 million less accumulated depreciation, rather than the cost of the direct financing lease treatment required for public financial reporting.

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<sup>20</sup> Removing the ERP/EAM hardware from Hawaiian Electric's Major Project Additions to determine end-of-period rate base only reduces the Total Adjusted RAM Revenue Adjustment on Schedule A1 (line 6) from \$128,162,481 to \$128,031,969, which remains significantly above the 2017 Cap – Total RAM Revenue Adjustment of \$101,131,452 (at line 9).

<sup>21</sup> The Lanai CHP issue first arose in MECO's 2010 test year rate case (Docket No. 2009-0163) and was resolved in the settlement agreement in that case (filed June 21, 2010).

At MECO-WP-D1-002, page 2, Maui Electric explains that the CHP system incurred extensive/irreparable damage due to fire on March 6, 2015. As a result, the CHP system was removed from service and no depreciation expense has been recorded since March 2015. However, Maui Electric included the net book value of the investment in rate base and expects the unit to return to service in November 2017. While the Lanai CHP has been out of service since March 2015 and no depreciation has been recorded, Maui Electric proposes to include the March 2015 net investment in rate base, even though the unit has been out of service and no lease payments have been received during the interim.

Although MECO-WP-D1-002, page 2, indicated the Lanai CHP was estimated to return to service in November 2017, the response to Informal CA-IR-32 now estimates that work on the unit is progressing ahead of schedule and could be operational by the end of June or July 2017. The response to Informal CA-IR-32 also indicated that rates have not been previously changed to remove the out-of-service investment and related depreciation from cost of service – so, ratepayers have not benefited in the form of lower rates despite the fact that the Lanai CHP has not been used or useful since March 2015.

Further, according to the response to Informal CA-IR-32, MECO does expect to receive insurance proceeds for the fire damage (total claim \$1.5 million less \$100,000 deductible). Depending on the total cost to get the unit back in service relative to insurance recoveries, the settlement between Maui Electric and the Consumer Advocate regarding the Lanai CHP accounting (direct financing lease) vs. ratemaking (traditional rate base) values in the 2010 test year rate case could be



impacted by the cost to return the unit to service, net of insurance proceeds. Consequently, additional ratemaking complications might arise.

For clarification, the Lanai CHP rate base treatment was addressed and resolved in the stipulated settlement letter (filed June 21, 2010) in MECO's 2010 test year rate case (Docket No. 2009-0163). Maui Electric did not record the agreed value of the investment to plant in service, as it continues to follow the direct financing lease accounting under GAAP. So, a ratemaking adjustment is required for RBA/RAM purposes to incorporate the agreed values to rate base and depreciation expense. However, Maui Electric stopped accruing the side-record "depreciation" on the unit when the fire occurred, so Maui Electric's proposed adjustment to include the full \$3.5 million plant investment and accumulated depreciation at March 2015 fails to recognize any benefit of growth in "accumulated depreciation" even though base electric rates have not been adjusted to remove the attendant costs. Because the unit has been down since March 2015, no lease payments have been made to Maui Electric for some time. The unit was not used or useful at December 2015 or December 2016 and remains out of service today.

While the Lanai CHP might return to service by July 2017, the Consumer Advocate recommends the removal of the net investment and related depreciation expense from the 2017 RBA/RAM filing. It is unclear whether the foregone lease payments or other foregone revenues have or should have impacted the determination of recorded adjusted revenues at Schedule B2. However, inconsistencies in cost of service elements (revenues, expenses, net investment) should be avoided when possible.

Maui Electric's 2016 RBA/RAM filing did refer to the extensive and irreparable damage to the unit caused by the fire.<sup>22</sup> This reference was overlooked by the Consumer Advocate in the review of MECO's 2016 RBA/RAM filing.

Because the RAM increases for Maui Electric are not constrained by the RAM Cap based upon GDPPI changes, the required rate base adjustment to remove Lanai CHP from rate base and depreciation expense does reduce the required RBA/RAM increase set forth on Maui Electric Schedule A.<sup>23</sup>

### **C. ADMINISTRATIVE ISSUES.**

Several decoupling administrative issues are raised by the Hawaiian Electric Companies in their RBA rate adjustment tariff transmittals this year. They include:

- A prior period correction to the 2013 Hawaiian Electric Earnings Sharing Credit calculation and edits to the RAM tariff that are intended to formalize the continued use of updated actual capital structure balances and debt costs that is used to calculate RAM Earnings Sharing Revenue Credits each year within Schedule H of the RAM template.
- Adoption of the Consumer Advocate's proposal that was advanced in 2015 to cease the detailed manual analysis of customer billing adjustments, striking language from the RBA tariff addressing "individual

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<sup>22</sup> See Maui Electric Transmittal No. 16-03, Schedule E at 3, notation in footnote 2.

<sup>23</sup> Removing the Lanai CHP from Maui Electric's rate base (see Schedule D1, note 1) both beginning and end-of-period values and from the depreciation expense calculation (see Schedule E, page 2) reduces Maui Electric's revised Total Adjusted RAM Revenue Adjustment on Schedule A1 (line 6) from \$14,387,565 to \$14,033,650 (a decrease of \$353,915), which remains below the 2017 Cap - Total RAM Revenue Adjustment of \$15,459,565 (at line 9).

billing errors” so they can flow through accounting records without analysis.

- Compliance procedures proposed by the Hawaiian Electric Companies to ensure that foregone revenues arising from implementation of the SMNPP are not recovered from other ratepayers through RBA accounting and reconciliation procedures.
- Removal of RBA tariff language referencing the “Stipulated Settlement Agreement” approved by the Commission in Order No. 31126 that allowed advance accrual of RAM revenues for Hawaiian Electric for a period of time that has now expired.

Each of these issues are discussed separately in this section of the Consumer Advocate’s Statement of Position. The Consumer Advocate supports Commission approval of these Company-proposed changes for the reasons described herein.

The Consumer Advocate wishes to advise the Commission regarding another administrative issue of future importance. Because of the pending Hawaii Electric Light and Hawaiian Electric rate cases, it will be necessary to consider revisions to the RBA rate levels discussed herein, that will be needed coincident with the implementation of new interim base rates in Docket Nos. 2015-0170 and 2016-0328, respectively. The pending Hawaii Electric Light rate case uses a 2016 test year and will likely have interim rates effective in 2017, raising a number of questions around Hawaii Electric Light’s entitlement to a 2017 RAM increase on top of newly ordered rate relief, how to disaggregate the cumulative RAM elements and cap calculations if any 2017 RAM

increase should be added to target revenues and whether to “re-base” the RAM calculation building upon Commission-approved expense and rate base levels to separately determine any appropriate 2017 RAM revenue entitlement. None of these issues, as more fully discussed below, have been previously encountered, as indicated by Schedule B1 summaries of Target Revenues that add six years of cumulative RAM increases on top of very dated “last” rate cases for each of the utilities.

### **1. Earnings Sharing Calculations.**

The RAM tariffs of each utility provide for “Evaluation Period Earnings Sharing” as part of each year’s decoupling review. Earnings sharing helps to ensure that the cost escalations and other parameters of the Rate Adjustment Mechanism do not produce unreasonable financial results in the form of excess earnings. The tariffs define the rate base, expenses and adjustments that are to be applied in calculating each utility’s Return on Equity (“ROE”) for Decoupling that is summarized in Schedule H of the template each year, with supporting input data compiled in a series of “WP-H-xx” series workpapers. A progressively higher “Ratepayer Share of Excess Earnings,” above the ROE last approved by the Commission in each utility’s last general rate case, is prescribed in the tariff and quantified in Schedule H, so as to encourage the utility to reduce costs and maximize earnings, with growing ratepayer participation in any excess ROE above approved levels.

Since the inception of decoupling, earnings sharing calculations on Schedule H have been performed using the prior year’s actual capital structure ratios and updated costs of debt capital, while solving for the achieved ROE each year. This approach can

be observed by comparing the annually updated “Ratemaking Capitalization” table of data that appears at lines 4 through 10 on Schedule H to the corresponding “PUC APPROVED CAPITAL STRUCTURE AND COSTS” values that are set forth on Schedule D, in amounts that remain unchanged from the prior rate orders of each utility. However, in this year’s decoupling transmittals, the Hawaiian Electric Companies observe that this updating to use the “actual recorded cost of capital” for earnings sharing was “based on discussions with the parties and has resulted in the benefit of lower cost of capital being passed on to customers” even though the Hawaiian Electric Companies can find no authority for this practice in Decision and Order, Docket No. 2008-0274. To remedy this lack of formal authority for the established earnings sharing calculation procedures, the Hawaiian Electric Companies propose tariff revisions “...to formally incorporate the use of the actual cost of capital in the earnings sharing calculation” noting that this change “would not impact any of the previous years’ decoupling filings.”<sup>24</sup>

The Consumer Advocate asserts that the only way to accurately determine the utilities’ achieved return on equity each year is to measure net income based upon updated, actual expenses, including the interest expense savings resulting from debt refinancing transactions that have occurred since the last rate case as well as the interest that is incurred to finance additional rate base investment. As a point of reference, the Hawaiian Electric cost of long-term debt approved by the Commission in Docket No. 2010-0080 was 6.15% and the overall post-tax cost of capital approved at that time was 8.31%, as summarized in Schedule D of Transmittal 17-02. In the

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<sup>24</sup> Transmittals 17-02, 17-03, and 17-04 at “Earnings Sharing Calculation Issue.”

updated capitalization set forth in Hawaiian Electric's Schedule H, the long-term debt cost has declined to 5.4% and the updated overall cost of capital was 8.10% in 2016 (holding the ROE constant at 10.0%). In response to Informal CA-IR-13, the Hawaiian Electric Companies agree that, "...incorporation of the actual weights of the capital components and actual debt rates result in an achieved return on equity that is more reflective of actual results."

To formalize the use of updated actual recorded cost of capital except for ROE, the Hawaiian Electric Companies have proposed to insert the term "actual" into the RAM tariff where "Evaluation Period Earnings Sharing" is prescribed, to clarify that "actual" listed expenses and "actual" capital structure, cost of debt, overall cost of capital and return on common equity should be employed. The Hawaiian Electric Companies' proposed tariff edits are minimally adequate to convey the intended formality and are probably adequate for this purpose. The Consumer Advocate does not object to these tariff changes, but would suggest that the Commission also indicate that the template format utilizing updated actual recorded cost of capital (except for ROE) at Schedule H remains appropriate. In response to Informal CA-IR-23, the Hawaiian Electric Companies stated agreement that the Commission could simply indicate that the template represents "approval of the methodology" in a form that represents sufficient documentation.

Hawaiian Electric experienced an achieved ROE above the sharing threshold in 2012, while Maui Electric had earnings sharing events in both 2013 and 2014. The Hawaiian Electric Companies' decoupling transmittals, at WP-H1-001, describe an error in accounting for interest expense for customer deposits that understated the

amounts of reported shareable earnings in these prior years. Even though the RBA tariff language does not specifically address corrections to a prior period where the earnings sharing was triggered, the Hawaiian Electric Companies are proposing retrospective corrections to each year when the shared earnings result would change, while applying interest using the short-term debt rate of 1.25%, on a compounded basis to such corrections. The Consumer Advocate does not object to this correction, in order to make customers whole for the impact of the accounting errors, but does not believe that acceptance of these limited adjustments should imply that prior years' earnings sharing calculations remain "open" to correcting adjustments indefinitely.

## **2. Customer Billing Adjustments.**

Schedule B of the template calculations for each utility reveal a series of "Adjustment" entries that summarize the impact upon the RBA balance of a number customer billing corrections. The RBA tariff reconciles actual Recorded Adjusted revenues against Target Revenues in each month on Schedule B, and customer billing adjustments are captured within this reconciliation because the corrections to customers' bills directly impact the amount of revenues actually received by the utilities.

The primary causes of customer billing corrections include:

1. Movement between rate schedules when certain criteria are met,
2. Incorrect customer set up with a company's billing system,
3. Failure or incorrect installation of equipment, and/or
4. Corrections of an estimated or incorrect meter reading.

In its response to Informal CA-IR-18, the Hawaiian Electric Companies' provided a summary of the recorded customer billing adjustments occurring within each of these categories as well as a detailed discussion of Hawaiian Electric's largest individual positive and negative adjustments to refund or increase prior charges to customers in 2016. This response also reveals the minimal overall impact upon the RBA balance that would occur if the proposed decoupling procedures for customer billing adjustments had been relaxed, in the proposed manner, during 2016. According to this response, which is attached to the Consumer Advocate's Statement of Position as Exhibit 1, the RBA balance would have been reduced by \$16,824 across all three utilities. This modest impact upon the RBA balance occurs because prior periods billing adjustments are "added back" in determination of each current month's Recorded Adjusted Revenues in column (d) of Schedule B, but then are separately removed in column (g) Adjustment entries, in amounts that effectively net to zero, except for amounts added as interest or amounts related to periods prior to the commencement of decoupling.

Customer billing adjustment analysis and disclosure within monthly and annual decoupling reports adds considerable effort to the utilities' accounting burden and to the Consumer Advocate's review efforts, even though the net impact of such adjustments upon the recoverable RBA balance is negligible. The Companies' pending decoupling transmittals quote the Consumer Advocate's recommendations made in its review of the previous 2015 decoupling filings:

Customer billing adjustments will flow naturally through the billed revenue accounts feeding into the calculation of recorded, adjusted revenues on Schedule B2 and the proposed elimination of the manual analysis of each adjustment to determine prior period months affected will significantly



simplify RBA accounting efforts for the Hawaiian Electric Companies and corresponding review efforts for the Consumer Advocate and the Commission. The Hawaiian Electric Companies should continue to report each customer billing adjustment within its standard data responses prepared and submitted with each monthly RBA packet, so that individual adjustments can be selected for review by the Consumer Advocate, as necessary.

The Hawaiian Electric Companies propose to prospectively adopt this Consumer Advocate recommendation by deleting existing RBA tariff provisions regarding entries to the RBA to correct individual billing errors.<sup>25</sup> The Consumer Advocate continues to support this simplification of decoupling administration and recommends acceptance of the proposed edits removing the “Entries to the RBA to correct individual billing errors...” language from the RBA tariffs of the utilities.

Individually large customer billing adjustments should remain available for review by the Consumer Advocate in monthly RBA documentation packets, after these adjustments are no longer isolated within Schedule B2 as adjustments with filed supporting workpapers in each year’s transmittals. In WP-B-005, the Hawaiian Electric Companies propose to continue monthly reporting of individually large billing adjustments, stating, “[r]egarding the Consumer Advocate’s recommendation on reporting, the Companies propose to report customer billing adjustments of \$50,000 or more in the monthly RBA packets, as \$50,000 is the current threshold to trigger interest recalculation.” The Consumer Advocate will accept this threshold level for monthly reporting, but wishes to reserve its ability to seek comprehensive summary information

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<sup>25</sup> Transmittal 17-02, at 18, Transmittal 17-03, at 17, and Transmittal 17-04, at 19.

about all customer billing adjustments in connection with future decoupling transmittal reviews.

### **3. SMNPP Revenue Impacts.**

The Hawaiian Electric Companies Transmittals 17-01 proposed that revenue reductions caused by the Special Medical Needs Pilot Program will contribute to the RBA balance to be recovered from the general body of ratepayers.<sup>26</sup> However, the Commission's Order No. 34503 required the Hawaiian Electric Companies to "make appropriate adjustments such that the reductions in revenues attributed to the SMNPP are not passed on to ultimately result in increased revenues collected from ratepayers through the Revenue Balancing Account." To comply with the Commission's Order in this regard, the Hawaiian Electric Companies intend to make adjustments to accurately quantify the revenue impact of this program through a new system-generated report identifying enrolled customers who were billed and the amounts of the discounts reflected as billed revenue adjustments in each month of the 2017 calendar year.<sup>27</sup> The Consumer Advocate recommends that detailed documentation supportive of customers' participation in SMNPP and the resulting revenue discounts be included within the monthly RBA entry packets for all months, commencing with the effective date of this new program.

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<sup>26</sup> Transmittal Nos. 17-02, 17-03 and 17-04, "Special Medical Needs Pilot Program."

<sup>27</sup> HECO Companies response to informal CA-IR-17. An estimate may initially be employed, assuming all enrolled customers as of the end of the month received the maximum discount of \$20 in the month, until automated reporting is implemented.

#### **4. RBA Tariff Language Elimination - “Stipulated Settlement Agreement.”**

The Consumer Advocate does not object to the proposed deletion of language within the Hawaiian Electric Companies’ RBA tariff referencing the “Settlement Agreement.” The referenced Settlement Agreement was approved by the Commission in Order No. 31126 in Docket No. 2008-0083 and permitted Hawaiian Electric, for a three-year period, to accelerate the accounting recognition of RAM revenue increases. Now that the term of that agreement has expired, there is no need for the “Settlement Agreement” section within the Hawaiian Electric Companies’ RBA tariff and it should be deleted. The corresponding “Settlement Agreement” language within the RAM tariff, for example at Hawaiian Electric revised sheet 89H, should remain, because the prescribed accounting for CIS costs in that agreement continue beyond the limited term applied to RAM accruals.

#### **5. Rate Case Implementation Issues.**

The Consumer Advocate is advising the Commission of certain RAM integration challenges, not raised in the Hawaiian Electric Companies’ transmittals, that are expected to arise from implementation of new base rates in pending rate cases. The RBA tariff states the following with respect to changes arising from rate case orders:

##### **B: TARGET REVENUE:**

For the purpose of the RBA, the target revenue is the annual electric revenue approved by the Public Utilities Commission in the last issued Decision & Order in the Company’s most recent test year general rate case, excluding revenue for fuel and purchased power expenses that are recovered either in base rates or in a purchased power adjustment clause; excluding revenue being separately tracked or recovered through any other surcharge or rate tracking mechanism;

and excluding amounts for applicable revenue taxes;

*Plus: Any effective RAM Revenue Adjustment calculated under the RAM provision for years subsequent to the most recent rate case test year for which the Commission has issued a Decision & Order; and....*

[emphasis added]

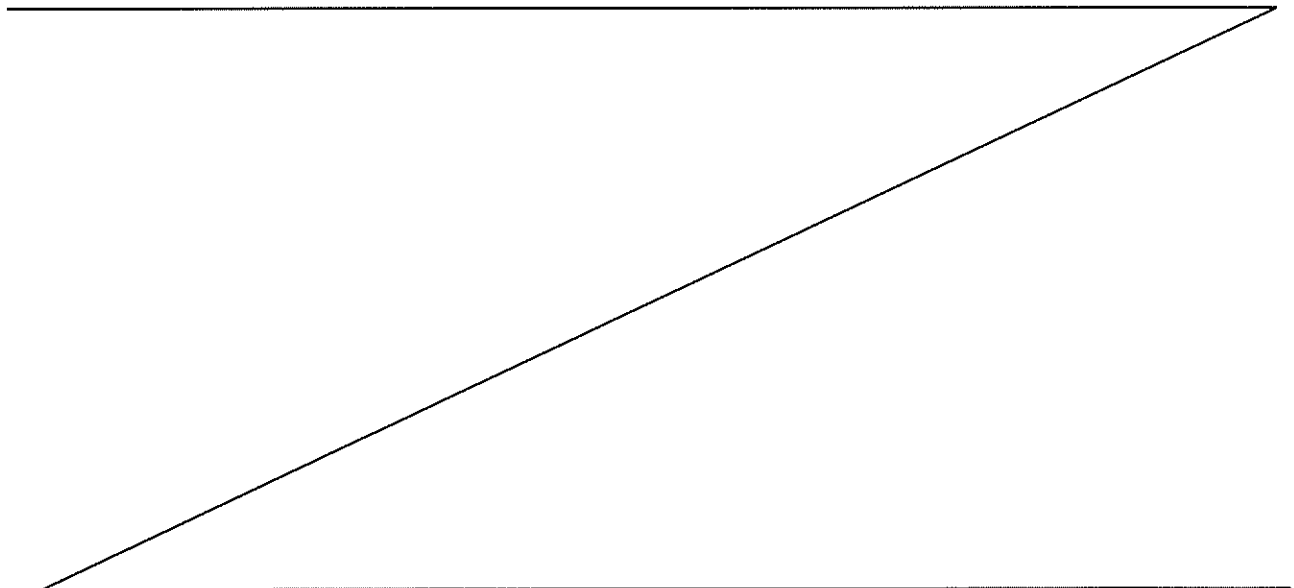
Thus, it is contemplated that Target Revenues will be updated based upon test year sales forecasts and new base rates, while an interim Hawaii Electric Light rate order based upon the 2016 test year in Docket No. 2015-0170 could be adjusted for a RAM Adjustment for the single year 2017 that is “subsequent to the most recent rate case test year” under this provision. However, no single-year 2017 RAM Adjustment for Hawaii Electric Light has been quantified at this time and consideration of this scenario raises a number of unanswered implementation questions that include, at a minimum, the following:

1. Is there need for any incremental RAM adjustment to Hawaii Electric Light’s 2016 test year, given Hawaii Electric Light’s selection of the test year that was presented in Docket No. 2015-0170?
2. If a RAM is appropriate, should Hawaii Electric Light’s 2016 test year approved rate base, cost of capital, labor and non-labor O&M expense values become new calculation inputs, serving as the basis for a complete recalculation of an incremental 2017 RAM increase to Target Revenues?
3. Alternatively, should the cumulative calculations of the O&M RAM, Rate Base RAM and Depreciation and Amortization RAM within the pending Transmittals be somehow disaggregated, so as to isolate a single year adjustment amount that could be additive to 2016 test year revenue

requirements, rather than recalculating an incremental 2017 RAM increase to add to new interim base rates?

4. How should the RAM Cap be reset, given its cumulative rolled-forward calculation within the existing RAM mechanism?
5. Is any new Return on Equity approved by the Commission in a rate case applicable within the Earnings Sharing RAM calculations only prospectively, or should authorized ROE changes apply to 2016 reported earnings that are subject to sharing within the existing Transmittals?

With respect to Hawaiian Electric Docket No. 2016-0328, the 2017 test year being employed should cause interim rates that are approved any time prior to June 1, 2018 to fully replace all RAM amounts within the Hawaiian Electric RBA rate, at the time new interim rates are effective. The Consumer Advocate has not formulated any position regarding these important issues and welcomes any input from the Commission regarding whether and how RAM accounting should apply to the uniquely “old” test year that is now under consideration in Hawaii Electric Light Docket No. 2015-0170.



### III. CONCLUSIONS AND RECOMMENDATIONS.

For the reasons set forth herein, the Consumer Advocate recommends that the calculated adjustment to revenues proposed by the Hawaiian Electric Companies in its Transmittal Nos. 17-02, 17-03, and Revised Transmittal 17-04 should be approved, with the modification described herein applied to the revised RAM calculations of Maui Electric.

DATED: Honolulu, Hawaii, May 12, 2017.

Respectfully submitted,

By   
DEAN NISHINA  
Executive Director

DIVISION OF CONSUMER ADVOCACY

INFORMAL CA-IR-18  
2016 RBA PACKET  
PAGE 1 OF 6

INFORMAL CA-IR-18

In their decoupling transmittals, starting at page 18, the Companies have proposed changes to the handling of "Customer Billing Adjustments" with reference to prior recommendations of the Consumer Advocate to simplify this element of RBA accounting. Please provide the following information:

- a. A general description of each type of frequently occurring customer billing corrections.
- b. A categorization of the billing adjustments listed in Schedule B for each of the HECO Companies into the categories identified in your response to part (a).
- c. Using the single largest positive 2016 HECO billing adjustment amount shown in HECO Schedule B in February as an example, please provide the following information:
  1. Explain the nature of the demand meter multiplier billing problem, how it was discovered, when and how the customer was notified of the error and whether needed corrections occurred via adjustments within subsequent monthly bills, a manual account balance correction or some other form of transaction.
  2. Explain which prior months of billed revenues were inaccurate and identify the lines within Schedule B2 where improperly billed amounts were reflected in those prior months on Schedule B2.
  3. Describe the transactions with the customer that were initiated to correct the billing problem, indicating when they were recorded and which lines of Schedule B2 were impacted by the correction transactions.
  4. Explain how HECO-WP-B-003 FEB 2016 is used to document the monthly amounts of billing corrections for the customer.
  5. Describe whether any interest was applied to the correction transactions with the customer and the basis for such interest.
  6. Describe whether any interest was applied to the correction transactions recorded to the RBA balance and the basis for such interest.
- d. Using the single largest negative 2016 HECO billing adjustment amount shown in HECO Schedule B in September as an example, please provide the same information for each sub-part of part (c) above.
- e. What impact upon the December 31, 2016 RBA balance and future decoupling charges to ratepayers, if any, would result *if* the Company's proposed tariff change for handling Customer Billing Corrections had been in effect throughout 2016? Please explain and provide supporting calculations for any resulting impact amount.

Hawaiian Electric Companies' Response:

- a. Frequently occurring customer billing corrections include, but are not limited to:
  - (1) Movement between rate schedules when certain criteria are met;
  - (2) Incorrect customer set up with the Company's billing system;

INFORMAL CA-IR-18  
2016 RBA PACKET  
PAGE 2 OF 6

- (3) Failure or incorrect installation of equipment; and/or
  - (4) Correction of an estimated or incorrect meter reading.
- b. See Attachment 1 for a Summary of Hawaiian Electric, Hawai'i Electric Light and Maui Electric's billing adjustments identified by category in response to part (a) above.
- c. In February 2016, a billing adjustment of \$325,317 was made to refund a Schedule P customer for the period from 6/14/14 to 1/14/16.
- 1. During the regular review control performed by the Key Account Manager, a higher demand usage for this customer was noted. Based on an investigation, the Company discovered that a meter change and resultant multiplier change were not captured in the MV90 system (a software application that collects usage and data from the metering devices), resulting in the wrong demand being charged. The Key Account Manager notified the customer of the error in February 2016 and the error was corrected via a reversal/rebill in February 2016. The customer received a Statement of Corrections supporting the reversal/rebill with their February 2016 bill.
  - 2. The prior billing months from July 2014 to January 2016 were misstated and would have been reflected in Lines 1, 7 and/or 8 on Schedule B2.
  - 3. As the billing adjustment to refund the customer relates to prior periods it should not impact the current month's determination of recorded adjusted revenue for the RBA, therefore it is removed on line 41 of Schedule B2.
  - 4. HECO-WP-B-003 calculates the monthly impact of the difference between the actual ("As Previously Stated") RBA – Revenue Tracker as compared to the



INFORMAL CA-IR-18  
2016 RBA PACKET  
PAGE 3 OF 6

corrected RBA ("As Revised") along with the associated interest because the adjustment was over \$50,000.

5. No interest was applied to the corrected transaction with the customer.
  6. Yes. The Company recalculated the RBA, including interest, based on the billing adjustments in the prior months incurred because the adjustment met the interest recalculation threshold of \$50,000 per the Revenue Balancing Account provision tariff. Calculations can be found at HECO-WP-B-003.
- d. In September 2016, a billing adjustment of \$427,975 was made to bill a Schedule DS customer for the period from 9/2/15 to 8/1/16 due to a failure of the customer's equipment.
1. During the monthly review of the MV90 report that captures meter data and error messages, an error in meter reading of this customer's meter was noted. In October 2015, the Company conducted an investigation and discovered that a fuse was blown on the customer's primary gear. The customer took a while to rectify the problem, the fuse was changed out on 6/1/16 and the meter was replaced on 6/3/16. The Key Account Manager initially notified the customer of the equipment failure and the timing of the reversal/rebill in September 2016. The customer received a Statement of Corrections supporting the reversal/rebill with their September 2016 bill.
  2. The prior billing months from October 2015 to August 2016 were inaccurate and would have been reflected in Lines 1, 7 and/or 8 on Schedule B2.

INFORMAL CA-IR-18  
2016 RBA PACKET  
PAGE 4 OF 6

3. As the billing adjustment to bill the customer relates to prior periods it should not impact the current month's determination of recorded adjusted revenue for the RBA, therefore it is removed on line 41 of Schedule B2.
  4. HECO-WP-B-010 calculates the monthly impact of the difference between the actual ("As Previously Stated") RBA – Revenue Tracker as compared to the corrected RBA ("As Revised") along with the associated interest because the adjustment was over \$50,000.
  5. No interest was applied to the corrected transaction with the customer.
  6. Yes, the Company recalculated the RBA, including interest, based on the billing adjustments in the prior months incurred because the adjustment met the interest recalculation threshold of \$50,000 per the Revenue Balancing Account provision tariff. Calculations can be found at HECO-WP-B-010.
- e. See Attachment 2 (Hawaiian Electric), 3 (Hawai'i Electric Light), and 4 (Maui Electric) to this response for supporting calculations that reflect revisions to Schedule B:
- Column (d) Recorded Adjusted Revenue - Recorded Adjusted Revenues has been revised to remove prior period billing adjustments
  - Column (g) Adjustments - billing adjustments previously itemized in Note 1 have been removed.

Had the Companies' proposed tariff change for handling Customer Billing Corrections been in effect throughout 2016, the impact on the RBA balances as of December 31, 2016 would have been:

INFORMAL CA-IR-18  
2016 RBA PACKET  
PAGE 5 OF 6

	As Filed per Decoupling Filing	With Proposed Tariff Change	Difference
Hawaiian Electric	43,227,612	43,211,479	(16,133)
Hawai'i Electric Light	3,018,216	3,026,651	8,435
Maui Electric	2,620,523	2,611,397	(9,126)
Total	48,866,351	48,849,527	(16,824)

The difference is due to: 1) the removal of the pre-decoupling component, 2) interest calculated on billing adjustments  $\geq \pm \$50,000$  from the Recorded Adjusted Revenue calculation, 3) lower interest calculation and 4) removal of billing adjustments made during 2017 that related to 2016 for which the ending (12/31/16) balance was adjusted.

A reconciliation of the RBA balance as Filed to the RBA balance as Proposed is as follows:

INFORMAL CA-IR-18  
2016 RBA PACKET  
PAGE 6 OF 6

	Hawaiian Electric	Hawai'i Electric Light	Maui Electric	Consolidated
RBA balance as Filed	43,227,612	3,018,216	2,620,523	48,866,351
Adjustments:				
Billing adjustments – post-decoupling portion - added (Sch B, revisions embedded in column (d))	564,979	93,195	24,538	682,712
Billing adjustments – post-decoupling portion - removed (Sch B, column (g))	(564,979)	(93,195)	(24,538)	(682,712)
(1) Billing adjustments - pre-decoupling portion	(5,589)	10,109	(1,844)	2,676
(2) Interest on bill adjustments >\$50,000	(9,047)	(1,682)		(10,729)
(3) Interest impact	(335)	8	(13)	(340)
(4) Remove - 2017 bill adjustments relating to 2016	(1,162)	-	(7,269)	(8,431)
Total Adjustments	(16,133)	8,435	(9,126)	(16,824)
RBA balance as proposed	43,211,479	3,026,651	2,611,397	48,849,527


**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing **DIVISION OF CONSUMER ADVOCACY'S STATEMENT OF POSITION** was duly served upon the following parties, by personal service, hand delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR § 6-61-21(d).

DEAN K. MATSUURA  
MANAGER, REGULATORY RATE PROCEEDINGS  
HAWAIIAN ELECTRIC COMPANY, INC.  
P. O. Box 2750  
Honolulu, Hawaii 96840-0001

1 copy  
by hand delivery

DATED: Honolulu, Hawaii, May 12, 2015.

  
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