

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Transmittal of)
)
HAWAIIAN ELECTRIC COMPANY, INC.,) TRANSMITTAL NO. 16-01
) (DECOUPLING)
For approval to modify the RBA Rate)
Adjustment in Its Revenue Balancing)
Account Provision Tariff)
_____)

In the Matter of the Transmittal of)
)
HAWAII ELECTRIC LIGHT COMPANY, INC.,) TRANSMITTAL NO. 16-02
) (DECOUPLING)
For approval to modify the RBA Rate)
Adjustment in Its Revenue Balancing)
Account Provision Tariff)
_____)

In the Matter of the Transmittal of)
)
MAUI ELECTRIC COMPANY, LIMITED,) TRANSMITTAL NO. 16-03
) (DECOUPLING)
For approval to modify the RBA Rate)
Adjustment in Its Revenue Balancing) CONSOLIDATED
Account Provision Tariff)
_____)

ORDER NO. 33724

CONSOLIDATING PROCEEDINGS, PROVIDING CLARIFICATIONS,
AND APPROVING TARIFF TRANSMITTALS AS AMENDED

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PUBLIC UTILITIES
COMMISSION

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OF THE STATE OF HAWAII

In the Matter of the Transmittal of)
)
HAWAIIAN ELECTRIC COMPANY, INC.,) Transmittal No. 16-01
) (Decoupling)
For approval to modify the RBA Rate)
Adjustment in Its Revenue Balancing)
Account Provision Tariff)
_____)

In the Matter of the Transmittal of)
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HAWAII ELECTRIC LIGHT COMPANY, INC.,) Transmittal No. 16-02
) (Decoupling)
For approval to modify the RBA Rate)
Adjustment in Its Revenue Balancing)
Account Provision Tariff)
_____)

In the Matter of the Transmittal of)
)
MAUI ELECTRIC COMPANY, LIMITED,) Transmittal No. 16-03
) (Decoupling)
For approval to modify the RBA Rate)
Adjustment in Its Revenue Balancing) CONSOLIDATED
Account Provision Tariff)
_____) Order No. **33724**

CONSOLIDATING PROCEEDINGS, PROVIDING CLARIFICATIONS,
AND APPROVING TARIFF TRANSMITTALS AS AMENDED

By this Order, the commission (1) consolidates the above-captioned decoupling transmittals; (2) provides several clarifications regarding the transmittals made by Hawaiian Electric Company, Inc. ("HECO"), Hawaii Electric Light

Company, Inc. ("HELCO"), and Maui Electric Company, Limited ("MECO") (collectively, the "HECO Companies"), on March 31, 2016; (3) approves the March 31, 2016 transmittals for HECO and MECO; and (4) approves HELCO's transmittal as amended on May 19, 2016.

I.

Background and Procedural History

On March 31, 2016, HECO, HELCO, and MECO each filed a transmittal - Transmittal Nos. 16-01, 16-02, and 16-03, respectively - proposing to revise the Revenue Balancing Account ("RBA") Provision tariff ("RBA Tariff") to revise the RBA Rate Adjustment ("Transmittals").¹ Based on the revised Target Revenues and RAM Revenue Adjustments, HECO proposed to increase its current RBA Rate Adjustment from \$0.021078 per kilowatt-hour ("kWh") to \$0.021098 per kWh for the period from June 1, 2016, to May 31, 2017. Likewise, for the same period, HELCO proposed to increase its current RBA Rate Adjustment from \$0.013971 per kWh to \$0.014795 per kWh, and MECO proposed to decrease its current RBA Rate Adjustment from \$0.015987 to \$0.014082 per kWh for all divisions.

¹In accordance with the RBA tariff and Revenue Adjustment Mechanism ("RAM") tariffs, the Transmittals also propose to determine and amend prospective Target Revenues and RAM Revenue Adjustments.

On April 28, 2016, an informal technical conference was held to discuss the Transmittals filed by the HECO Companies on March 31, 2016.

On May 6, 2016, the Consumer Advocate filed its Statement of Position ("CA SOP") concerning the Transmittals. In its SOP, the Consumer Advocate identified three issues to be addressed by the commission, including requests for clarification and several proposed amendments to the proposed RAM Revenue Adjustment for HELCO. The Consumer Advocate did not propose amendments to the proposed adjustments for HECO or MECO.

On May 19, 2016, the HECO Companies filed the "HECO Companies Response," which contains (1) arguments in response to the Consumer Advocate's SOP; (2) revised tariff sheets with revised RBA Rate Adjustments for HELCO; and (3) documentation supporting revised RBA and RAM calculations for HELCO. The revised tariff sheets, and associated RBA and RAM calculations, purport to address the issues raised by the Consumer Advocate, and to implement the amendments proposed by the Consumer.

As a result, the proposed RBA Rate Adjustment for HECO and MECO in the HECO Companies Response remain the same as proposed in the March 31, 2016 transmittals. The proposed RBA Rate Adjustment for HELCO is amended in the HECO Companies Response to increase HELCO's current RBA Rate Adjustment from \$0.013971 per kWh to \$0.014241 per kWh. However, the \$0.014241

per kWh adjustment is \$0.0554 cents less than the \$0.014795 per kWh proposed in HELCO Transmittal No. 16-02, as filed on March 31, 2016.

II.

Consolidation

Pursuant to HAR § 6-61-39, the commission, on its own motion, consolidates Transmittal Nos. 16-01, 16-02, and 16-03. As discussed herein, each of these Transmittals relate to the HECO Companies' decoupling mechanisms, and consolidation will promote administrative efficiency.

III.

Findings and Conclusions

1. The CA SOP identifies three matters requiring consideration by the commission with respect to the HECO Companies' proposed Rate Adjustments.² Each of these matters is discussed in the CA SOP under the following headings: "1. Bonus Depreciation Approved for 2015;" "2. Above the RAM Cap Project Identification;" and "3. Revised HELCO Major Project Cost Estimates."

²CA SOP at 8-9.

2. Based on its review and consideration of the March 31, 2016 Transmittals, the CA SOP, and the HECO Companies Response, the commission provides the following determinations and clarifications regarding each of the specific matters identified in the CA SOP.

A.

Bonus Depreciation Approved for 2015

3. The CA SOP asserts that amendment to the RAM Revenue Adjustment in the HELCO Transmittal is necessary to account for bonus depreciation allowed late in the 2015 RAM Period.

The HELCO Rate Base RAM should be reduced to account for [the] value of the retroactive extension of bonus tax depreciation for the 2015 tax year, that was not recognized in last year's RAM adjustment. This is the same adjustment that was imposed by Order No. 32866 under identical factual circumstances last year.³

The needed downward adjustment to the HELCO Rate Base RAM arising for retroactive inclusion of 2015 bonus depreciation has been quantified by the HECO Companies, in their response to Informal CA-IR-44, as a \$373,000 reduction to the Rate Base RAM.⁴

³CA SOP at 8.

⁴CA SOP at 18.

4. The CA SOP does not propose any similar amendment to the HECO or MECO submittals.

Because the RAM increases for Hawaiian Electric and MECO are constrained by the RAM Cap based upon GDPPI changes, the required adjustment for correction of last year's bonus depreciation assumption applies only to HELCO. No bonus tax depreciation adjustments are needed for Hawaiian Electric or MECO because the RAM Cap serves to escalate the RAM amount after the basis for the Cap was reduced for bonus depreciation last year.⁵

5. Federal legislation that became effective in December of 2015 provided for a retroactive allowance of 50% bonus depreciation for qualified plant assets placed in service in calendar year 2015. The allowance of bonus depreciation late in the 2015 calendar year repeats circumstances addressed by the commission regarding the bonus depreciation allowance late in the 2014 calendar year.

6. In Order No. 32866, filed May 28, 2015, the commission directed the HECO Companies to make explicit adjustments to the Companies RAM Adjustments and target revenues to ensure that the 2014 bonus depreciation benefits would accrue to the Companies' customers. The commission based its directives in principal part on letters from each of the HECO Companies, dated May 14, 2014, in which the Companies agreed to pass on to

⁵CA SOP at 18.

customers the benefits of any [then] future bonus depreciation allowed for 2014.

7. HELCO's March 31, 2016 Transmittal does not explicitly discuss nor adjust for the impacts of the retroactive allowance of 50% bonus depreciation for the 2015 calendar year. In response to an informal request by the Consumer Advocate, the HECO Companies acknowledge that circumstances in 2015 are generally the same as in 2014, but, for HELCO, state that there is still an issue concerning "whether the Company received a tax benefit associated with 2015 bonus depreciation that should be reflected in the revenue requirements in the 2015 RAM year."⁶

8. The HECO Companies Response provides further argument that a retroactive downward adjustment to HELCO's RAM Adjustment should not be required. Nevertheless, the HECO Companies state that "in the interest of expediting the issuance of an order, [HELCO] will incorporate an adjustment to its 2016 RAM Revenue Adjustment for the 2015 bonus depreciation."⁷ Accordingly, HELCO's revised RBA and RAM adjustment calculations, RAM Revenue Adjustments, RBA Rate Adjustments, and revised tariff sheets, as proposed and included in the HECO Companies Response,

⁶HECO Companies response to Informal CA-IR-44.

⁷HECO Companies Response at 4.

include the adjustments for 2015 bonus depreciation as proposed by the Consumer Advocate.

9. HELCO further states that it reserves the right to raise the issue of benefits received based on the enactment of tax changes in future proceedings."⁸

10. In light of the agreement by HELCO in the HECO Companies Response to make the amendments regarding the treatment of 2015 bonus depreciation proposed by the Consumer Advocate, and consistent with the commission's prior determination regarding 2014 bonus depreciation, the commission finds and concludes that the amendments for the treatment of 2015 bonus depreciation in the HECO Companies Response are appropriate and reasonable.

B.

Above the RAM Cap Project Identification

11. The CA SOP requests clarification regarding implementation of the HECO Companies' pending application for recovery of certain capital costs above the RAM Cap.

The pending application of Hawaiian Electric for recovery of certain capital project costs Through the RAM and Above the RAM Cap has created potential inconsistencies and the risk of double recovery of costs that should be clarified by the Commission in this tariff transmittal. However, the Consumer Advocate points out this issue is still pending in

⁸HECO Companies Response at 4.

Docket No. 2013-0141 as well as in the pending application in Docket No. 2015-0375. Thus, proper consideration of this issue should also be reflected in those other proceedings as well.⁹

12. The CA SOP provides arguments regarding the merits of HECO's pending proposals in Docket Nos. 2013-0141 and 2015-0375, as well as recommendations and requested clarifications in the event that the commission allows recovery of revenue for capital projects above the RAM Cap.¹⁰

13. The HECO Companies Response argues that the commission has not yet approved the Companies "Above RAM Cap Application" and the Companies have not added or requested revenue recovery for projects above the RAM Cap in the 2016 RAM Period.¹¹ In addition, the HECO Companies Response includes detailed responses to the Consumer Advocate's arguments, as well as recommendations and requests regarding recovery of revenues above the RAM Cap.¹²

14. The commission concurs with the observation in the HECO Companies Response that the commission has not yet approved the Companies "Above RAM Cap Application," and that the Companies

⁹CA SOP at 9.

¹⁰See CA SOP at 19-21.

¹¹HECO Companies Response, Attachment 1 at 5.

¹²See HECO Companies Response, Attachment 1 at 4-13.

have not added or requested revenue recovery for projects above the RAM Cap in the 2016 RAM Period.¹³ Thus, the commission finds and concludes that it is not necessary or appropriate for the commission to provide the clarifications requested by the Consumer Advocate in this Order. The commission will address these concerns in the appropriate pending proceedings considering these matters.

C.

Revised HELCO Major Project Cost Estimates

15. The CA SOP proposes that certain capital project costs for HELCO should be updated, and requests clarification regarding categorization of Major Capital Projects.

Major Capital Project costs for HELCO require updating for reduced current cost estimates. Additionally, the Commission should clarify whether projects that are approved pursuant to General Order No. 7 review are entitled to Major Capital Project treatment with the RAM even when revised cost estimates fall below \$2.5 million.¹⁴

16. The HECO Companies Response identifies certain lower Major Capital Project costs for HELCO, including a lower revised estimate of \$2,031,530 for the qualifying 2016 component

¹³HECO Companies Response, Attachment 1 at 5.

¹⁴CA SOP at 9.

of the CT-5 overhaul, and a reduction in the costs for the Keamuku-Keahole 6800 Line Reconstruction Project, Phase 2, from \$4,211,952 to \$2,859,636.¹⁵ The HECO Companies Response further identifies and documents the calculation of the revised proposed RAM Revenue Adjustments, target revenues, and RBA Rate Adjustments to account for these reductions in Major Capital Project costs.

17. However, the HECO Companies Response also asserts that, although the portion of the CT-5 overhaul project included as a Major Capital Project in the determination of the HELCO 2016 RAM Revenue Adjustment is less than \$2.5 million, the current estimated cost of the total project is \$3,227,224, which is less than the authorized project cost but above the \$2.5 million threshold for Major Capital Projects.

18. Generally, the commission clarifies that, unless otherwise determined by the commission based on specific facts and circumstances, a project that is approved by the commission pursuant to General Order No. 7 ("G.O.7") is a Major Capital Project for purposes of implementing the RAM tariffs, even if later cost estimates and/or actual costs turn out to be less than \$2.5 million. The HECO Companies should be encouraged to keep project costs as low as prudently possible, and should not

¹⁵See HECO Companies Response Attachment 1 at 14-15.

be provided perverse incentives to deliberately maintain project costs high enough so as to qualify for expected cost recovery.

19. The commission recognizes that the \$2.5 million threshold could potentially encourage gaming. In the context of a G.O.7 proceeding, the Consumer Advocate or other parties may argue, or the commission may find, based on specific facts and circumstances, that certain projects are not appropriately categorized as Major Capital Projects for purposes of implementing the RAM tariffs.

IV.

Summary of Conclusions

20. Based on its review of the transmittals filed by each of the HECO Companies on March 31, 2016, and the supplemental filings in this matter, the commission concludes that (a) Transmittals 16-01 and 16-03, filed on March 31, 2016, by HECO and MECO respectively; and (b) Transmittal 16-02 filed by HELCO on March 31, 2016, as amended by Attachment 2 and Attachment 3 of the HECO Companies Response¹⁶ dated May 19, 2016. ("HELCO Amended

¹⁶As specified in the HECO Companies Response: Attachment 2 refers to the revised tariff sheets identifying HELCO's RBA Rate Adjustment, attached to the HECO Companies Response; and Attachment 3 refers to HELCO's "Revised 2016 Decoupling Calculation Workbook," attached to the HECO Companies Response. The commission does not explicitly approve Attachment 1 which is the HECO Companies "Joint Response to Consumer Advocate's Statement of Position."

Transmittal"), are consistent with applicable tariffs and the commission's orders, and, are therefore just and reasonable.

21. Accordingly, the transmittals for HECO and MECO, and the HELCO Amended Transmittal, including the tariff sheets provided therein, are approved and shall go into effect for each of the HECO Companies on June 1, 2016.

V.

Orders

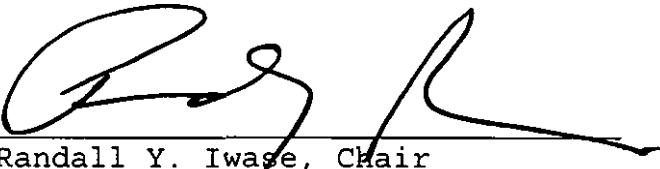
THE COMMISSION ORDERS:

1. Transmittals 16-01 and 16-03, filed by HECO and MECO respectively, on March 31, 2016, and HELCO's Amended Transmittal, including the tariff sheets provided therein, are approved and shall go into effect for each of the HECO Companies on June 1, 2016.

2. The RBA Rate Adjustments identified in Transmittals 16-01 and 16-03, filed on March 31, 2016, by HECO and MECO respectively, and HELCO's Amended Transmittal, filed on March 31, 2016, as amended on May 19, 2106, are approved and shall go into effect for each of the HECO Companies on June 1, 2016.

DONE at Honolulu, Hawaii MAY 24 2016


PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Randall Y. Iwase, Chair

By 
Michael E. Champley, Commissioner

By 
Lorraine H. Akiba, Commissioner

APPROVED AS TO FORM:



Thomas C. Gorak
Commission Counsel

TransmittalNos. 16-01, 16-02, & 16-03.rs

CERTIFICATE OF SERVICE

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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