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PUBLIC UTILITIES
COMMISSION

The Honorable Chair and Members of
the Hawaii Public Utilities Commission
Kekuanaoa Building
465 South King Street, 1st Floor
Honolulu, Hawaii 96813

Dear Commissioners:

RE: Transmittal No. 15-03: Hawaiian Electric Company, Inc.; Transmittal No. 15-04: Hawaii Electric Light Company, Inc.; and Transmittal No. 15-05: Maui Electric Company, Ltd. – Applications For Approval to Modify the RBA Rate Adjustment in the Revenue Balancing Account Provision Tariff.

In accordance with the guidance offered by the Public Utilities Commission ("Commission") during the discussion on April 27, 2015, related to the revised requests filed by Hawaiian Electric Company, Inc. ("Hawaiian Electric"), Hawaii Electric Light Company, Inc. ("Hawaii Electric Light"), and Maui Electric Company, Ltd. ("Maui Electric") (collectively referred to as the "Hawaiian Electric Companies"), the Division of Consumer Advocacy ("Consumer Advocate") is providing its first letter identifying certain issues or questions related to the Hawaiian Electric Companies' 2015 annual decoupling filings. The Consumer Advocate stresses that this letter (and any that follow) are meant to identify, as early as possible for the Commission's convenience, issues that arise as a result of the review of the individual tariffs and the support for those tariffs filed by the Hawaiian Electric Companies. A detailed discussion of the issues, recommendations, and detailed support will generally not be offered with these letters as the Consumer Advocate is still analyzing and investigating the Hawaiian Electric Companies' tariff transmittals and the underlying support.

At this time, however, the Consumer Advocate identifies the following issues related to the Hawaiian Electric Companies' tariff transmittal numbers 15-03, 15-04, and 15-05:

Should the interim 90 percent limitation in growth of the rate base RAM as implemented in Order No. 31908, be removed in the determination of 2014 adjusted target revenues that are then subject to escalation using the Gross Domestic Product Price Index ("GDPPI") in quantifying the RAM cap?

Given the relevant language in Decision and Order No. 31908, filed on February 7, 2014, and Order No. 32735, filed on March 31, 2015, the Consumer Advocate contends that there is a possible interpretation issue regarding whether the 90% cap that the Commission set forth in Decision and Order No. 31908 should be used in the determination of the 2014 rate base rate adjustment mechanism ("RAM") factor when determining the RAM cap that the Commission has implemented in its Order No. 32735. This issue is further elaborated in Attachment 1.

Should 2014 RAM depreciation and amortization expense first be updated, based upon December 2014 recorded plant in service balances' and then be subject to escalation using the GDPPI within the RAM cap?

In the RAM cap that the Commission set forth in Order No. 32735, the Commission allows the use of 2014 end of year balances as the basis upon which the RAM cap and RAM factor would be calculated. The Consumer Advocate questions, however, whether it is the Commission's intent to allow the calculation of the RAM cap using depreciation expense for 2014 based on 2014 end of year plant in service balances, which is inconsistent with the Hawaiian Electric Companies' normal calculation of depreciation expense as well as past annual decoupling filings, and then inflating that amount by the GDPPI factor. This issue is also further discussed in Attachment 1.

Is the GDPPI value for use in the administration of the RAM cap intended to be based upon a consensus projection of expected RAM year changes in price levels, as employed in the currently effective RAM tariff, or upon the change in actual, government-reported GDPPI values during the prior calendar year?

The Consumer Advocate contends that there is an issue of interpretation with respect to the use of the GDPPI in setting the RAM cap. While the current tariff establishes the use of the Blue Chip Economic Indicators' consensus GDPPI

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estimate to determine the O&M RAM factor, the Consumer Advocate is uncertain whether, in determining the RAM cap, the Commission meant to use a GDPPI estimate for an upcoming year to be used in the determination of the RAM cap that focuses on prior year inputs or whether the use of recorded, historical year data for GDPPI was intended. See Attachment 1.

As requested by the Commission in the April 27, 2015 meeting, the Consumer Advocate will bring issues to the Commission's attention as they are identified. The Consumer Advocate will, however, continue its review and analysis of each issue, which will include discovery and discussion with the Hawaiian Electric Companies. As a result of the continued review and analysis, it may be possible some of the issues that are preliminarily identified may be resolved. The Consumer Advocate will, however, identify and discuss any remaining issues or concerns related to decoupling tariffs filed by Hawaiian Electric, Hawaii Electric Light and Maui Electric in the Consumer Advocate's statement of position expected to be filed on May 15, 2015.

Sincerely yours,



FOR JEFFREY T. ONO
Executive Director

JTO:lm

c: Dean Matsuura

TRANSMITTAL NOS. 15-03, 15-04 and 15-05

**HAWAIIAN ELECTRIC COMPANY, INC.
HAWAII ELECTRIC LIGHT COMPANY, INC, and
MAUI ELECTRIC COMPANY, LIMITED**

Consumer Advocate Initial Identification of Issues

The Consumer Advocate has commenced its review of the Hawaiian Electric Companies' amended decoupling transmittals that were filed with the Commission on April 15, 2015. The Hawaiian Electric Companies' revised submittals were required by Order No. 32735 ("Order") that was filed on March 31, 2015, in the Commission's Decoupling Investigation, Docket No. 2013-0141. In the Order, the Commission required significant changes to the Rate Adjustment Mechanism ("RAM") element of the larger decoupling mechanism, including the calculation and application of a new "RAM Cap." The RAM Cap is to be based upon the determination of an adjusted 2014 target revenue "basis", multiplied by the cumulative annually compounded increase(s) in the Gross Domestic Product Price Index ("GDPPI"), as more fully explained in the Order.¹

In the amended transmittals,² the Hawaiian Electric Companies have adopted certain interpretations of the Order that are explained in the letters, schedules and workpapers within and supporting the amended transmittals. These interpretations impact the quantification of the RAM Cap and involve how to properly determine the adjusted 2014 target revenue "basis" to which GDPPI escalations are applied and which GDPPI value to employ. The Hawaiian Electric Companies' interpretations significantly

¹ See, for example, Order at paragraphs 96, 98 and 106-110.

² Decoupling Transmittal Nos. 15-03 (Hawaiian Electric), 15-04 (Hawaii Electric Light) and 15-05 (Maui Electric) filed by the Hawaiian Electric Companies on April 15, 2015.

impact the asserted target revenue increases. For example, even though the projected "GDP Price Index" for Hawaiian Electric provides for only a 1.1 percent increase above "Adjusted 2014 Target Revenues", as applied at new Schedule J in Hawaiian Electric's amended transmittal,³ the actual proposed increase in Target Revenues by Hawaiian Electric for 2015 is approximately 3.2 percent, which can be observed at Schedule B1 (revised 4-15-15) by comparing line 22 to line 21.⁴ This revenue increase that greatly exceeds GDPPI is largely attributable to certain of the Hawaiian Electric Companies' interpretations of the Order.

The purpose of this advance submission by the Consumer Advocate is to quickly identify issues in order to facilitate Commission review of the tariffs and issues that the Consumer Advocate is identifying related to its review of the tariffs. The Consumer Advocate understands that the Commission desires this early identification of issues to allow the Commission, where feasible, to offer clarification or guidance that may facilitate any needed revisions to the HECO Companies' amended tariff transmittals and allow for timely implementation of the RBA rate by June 1 of this year. Thus, the Consumer Advocate has organized this discussion by issue area and will first state the Consumer Advocate's understanding of the Hawaiian Electric Companies' proposal and then explain the concern regarding whether each proposal is compliant with the stated provisions and intent of the Order. It should be noted that the Consumer Advocate's review of the amended tariff transmittals is ongoing and any

³ Unless stated otherwise, all schedule or workpaper references relate to HECO's Transmittal No. 15-03 for simplicity purposes. In most instances, similar references also apply to the HELCO and MECO transmittals.

⁴ At revised Schedule B1, the 2015 Target Revenues of \$593,797,000 represent a 3.2% increase over the 2014 Target Revenues of \$575,270,000.

additional proposed corrections or adjustments to the filings will be submitted in formal comments that are due to be filed on or before May 15, in accordance with the Order.

ISSUE 1: SHOULD THE INTERIM 90 PERCENT LIMITATION IN GROWTH OF THE RATE BASE RAM, AS IMPLEMENTED IN ORDER NO. 31908, BE REMOVED IN THE DETERMINATION OF 2014 ADJUSTED TARGET REVENUES THAT ARE THEN SUBJECT TO ESCALATION USING GDPPI IN QUANTIFYING THE RAM CAP?

Hawaiian Electric Companies' Position:

At page 2 of each amended decoupling transmittal letter ("Letter"), the Hawaiian Electric Companies explain how they updated the previously submitted 2014 Rate Base RAM for inclusion in the 2014 Adjusted Target Revenue Base for purposes of applying the new RAM Cap. After quoting paragraph 108 at page 95 of the Order, the Hawaiian Electric Companies explain their Rate Base RAM adjustment procedure as follows:

As set forth in the Order, the Company utilized recorded December 31, 2014 actual ending balances for plant in service, net of depreciation and amortization, CIAC, and ADIT as the 2014 RAM year ending balances to determine an adjusted 2014 Rate Base RAM amount. Consistent with the existing RAM tariff, the December 31, 2014 balance amounts were reduced for amounts related to major projects in excess of the PUC-authorized amounts. Therefore, the amounts utilized are the same as the 2015 RAM year beginning balances on Schedule D1 of the Company's March 31, 2015 Annual Decoupling Filing. [footnote omitted]

Additional explanation is provided for the treatment of certain previously stipulated ratemaking matters involving CIS Deferred Costs and CT-1 Deferred Costs (Hawaiian Electric only) in the Letter, pursuant to paragraph 107 at page 95 of the Order. The Consumer Advocate is continuing its review of the Hawaiian Electric Companies' described calculations and is not presently aware of ambiguities in the Order that will complicate this analysis.

However, an immediate concern is revealed in a single sentence at page 3 of the Letter, where each of the companies state, “[p]ursuant to the Order (at pages 6 and 82), the 90% limitation on the RAM year Rate Base RAM adjustment shall no longer apply. Therefore, that limitation has been removed in the calculation of the 2014 adjusted Rate Base RAM.” In the Hawaiian Electric Companies’ amended transmittals, the 2014 Adjusted Target Revenues included within new Schedule J and supporting WP-J-001 and WP-J-002 are not reduced by the 90 percent factor that was applicable in 2014. The Consumer Advocate’s concern is whether any claw-back of the 10 percent disallowance resulting from the 90 percent Rate Base RAM factor, as applied in last year’s approved RAM increases, was intended by the Commission in determining the 2014 Adjusted Target Revenue basis value to be used for prospective administration of the RAM Cap.

Potentially Relevant Order Citations:

Introduction item 3 in the Order (page 6) states, “The 90% adjustment shall be removed in favor of the GDPPI cap.” However, this summary statement provides no clear indication of whether this removal is contemplated before or after the 2014 base target revenue values for RAM Cap purposes are calculated. The other Order language referenced by the Hawaiian Electric Companies appears at paragraph 79 (page 82), but is only slightly more specific, stating, “The amendments to the RAM implemented by this Order replace and terminate the previous interim limitations on RAM year Rate Base RAM Adjustments required pursuant to Order No. 31908.” It is understood that the new RAM Cap is a replacement interim revision to the RAM, but it is not clear whether “termination” of the 90 percent Rate Base RAM factor was to retroactively increase the

Hawaiian Electric Companies' 2014 target revenues in defining the new RAM Cap "basis".

The Consumer Advocate's concern is heightened by two other Order provisions. First, as a general statement, paragraph 100 (Page 96) states, "The RAM Cap will apply to the entire RAM Revenue Adjustment including the O&M RAM, Rate Base RAM (including Major Capital Projects and Baseline Projects), and the Depreciation and Amortization RAM." This language appears to suggest that the Commission's intent is that RAM increases in any year, starting in 2015, should not exceed GDPPI growth rates, except for any specifically prescribed adjustments to the 2014 RAM Revenue Adjustment "Basis" used to administer the Cap.

The other cause for concern appears where the RAM Cap basis is specified in the Order. Notably, a claw-back of the 10 percent disallowance resulting from the Rate Base 90 percent factor is not expressly permitted within the specified adjustment to 2014 target revenues that is set forth in Order paragraph 108. The permitted adjustment is limited to adjusting 2014 RAM calculations to substitute actual data in place of certain projected amounts in determining the 2014 Rate Base RAM. Paragraph 108 states:

For each of the HECO Companies, for the calculation of the RAM Cap for the 2015 RAM Revenue Adjustment and until issuance of a final decision and order in the next rate case for each Company, the target revenues that will serve as the Basis for the incremented cap will be the 2014 annualized target revenues adjusted as follows. The 2014 RAM Revenue Adjustment used to determine the adjusted 2014 target revenues for purposes of determining the cap will be adjusted to use recorded 2014 end-of-year actuals (plant in service, depreciation and amortization, CIAC, and ADIT) rather than 2014 RAM year projections in determination of the 2014 Depreciation and Amortization RAM Expense and average rate

base in the 2014 Rate Base RAM. [footnote 150]. This provision will include in the determination of the average 2014 effective rate base used in determining the RAM Cap for the 2015 RAM Revenue Adjustment, the actual end-of-year net plant in service, including all baseline projects installed in 2014, rather than the five year moving average of baseline project expenditures used in the determination of the 2014 Rate Base RAM. The adjusted 2014 target revenues will be incremented by the GDPPI index to determine the RAM Cap as provided above.

Additional detail is provided in footnote 150, which addresses the “effective rate base for the adjusted 2014 Rate Base RAM calculations in determining the adjusted 2014 target revenues for purposes of calculating the initial RAM Cap...” but this language also does not specify any intent to add back the prior year 90% adjustment for these purposes. Without clarification of the Commission's intent with regard to the replacement of the 90 percent Rate Base RAM adjustment with the new RAM Cap, indicating whether in calculating the RAM Cap basis any adding back of the prior year's 90 percent adjustment was intended, the Consumer Advocate anticipates that this will be an issue discussed in its May 15, 2015 statement of position.

ISSUE 2: SHOULD 2014 RAM DEPRECIATION AND AMORTIZATION EXPENSE FIRST BE UPDATED, BASED UPON DECEMBER 2014 RECORDED PLANT IN SERVICE BALANCES, AND THEN BE SUBJECT TO ESCALATION USING GDPPI WITHIN THE RAM CAP?

Company Position:

At pages 3 through 5 of each amended decoupling transmittal letter (“Letter”), the Hawaiian Electric Companies state, “[i]n view of the possible intent of certain language in the Order, the Company respectfully requests consideration of the following regarding the calculation of the 2014 Depreciation and Amortization RAM amount.” Then, the

Hawaiian Electric Companies quote from the paragraph 108 language that is included above where that paragraph references the use of end-of-year actuals, "...in determination of the 2014 Depreciation and Amortization RAM Expense and average rate base in the 2014 Rate Base RAM." The Hawaiian Electric Companies argue that, "[t]he December 31, 2014 plant in service balance includes the plant additions that already went into service and began providing benefits to customers in 2014. Therefore, the adjusted Company's Depreciation and Amortization calculation includes recovery of 2014 plant additions, but no recovery of any 2015 plant additions." The Hawaiian Electric Companies' template calculations include new Schedule J and WP-J-002 calculations supporting the RAM Cap for 2015 RAM Revenue Adjustment amounts appearing at line 5 of Schedule J. Pages 4 and 5 of WP-J-002 calculate an updated Depreciation and Amortization RAM Adjustment employing recorded December 31, 2014 depreciable plant in service balances within column (b).

The effect of the Hawaiian Electric Companies' proposed updating of depreciation and amortization expense within the 2014 target revenues used within the RAM Cap is said to yield additional revenues within the RAM Cap of \$9.0 million, \$1.4 million and \$1.3 million for Hawaiian Electric, Hawaii Electric Light and Maui Electric, respectively.⁵ Notably, these increases to the Adjusted 2014 Target Revenues used as the basis for the RAM Cap on line 1 of Schedule J are then escalated by GDPPI of 1.1 percent, producing an even higher Cap allowance for Depreciation and Amortization expenses in 2015.

⁵ For Hawaii Electric Light, the depreciation and amortization updating issue impacts proposed RAM revenues by less than the RAM Cap impact, because the full RAM revenue increase on Schedule A1 at lines 1 through 4 is less than the calculated RAM Cap at lines 5 through 7.

Footnote 5 of the Hawaiian Electric Companies' transmittal letters correctly notes that, "[t]he Depreciation and Amortization RAM recovered through the 2014 RBA rate adjustment did not include depreciation expense for plant additions through 2014, because under the Company's method of calculated depreciation, the depreciation accrual is based on the prior year ending (2013) plant in service balance." This means that the Hawaiian Electric Companies' 2014 target revenues, as calculated in last year's decoupling filings, already included full recovery of the Companies' depreciation and amortization expenses actually recorded in calendar year 2014, even though such amounts were based upon prior year-end recorded plant in service in last year's decoupling filings. Updating the Hawaiian Electric Companies' depreciation and amortization expense calculations now, to reflect recorded December 31, 2014 plant in service balances, would be appropriate only if the Commission intended no RAM Cap constraints upon the Depreciation and Amortization RAM for the 2015 RAM year. The Hawaiian Electric Companies' interpretation of the RAM Cap has the effect of including within the Cap a full annualization of expected calendar year 2015 depreciation and amortization expense for each of the companies, based upon recorded December 2014 plant in service balances, plus an escalation of GDPPI inflation to increase such amounts beyond expected 2015 levels.

In footnote 6 of the Hawaiian Electric Companies' transmittal Letters, certain alternative relief is requested "if the Commission is not inclined to allow the Company to utilize the recorded 2014 end-of-year plant in service balance to calculate the adjusted 2014 Depreciation and Amortization RAM...". However, this suggested alternative relief would appear to simply bypass the stated purpose of the RAM Cap to

limit annual growth in RAM revenue changes to the cumulative growth in GDPPI. The Consumer Advocate notes that paragraph 116 (page 98) of the Order directs the Hawaiian Electric Companies and the Consumer Advocate to “develop standards and guidelines for eligibility of projects and determination of the amount of eligible cost recovery above the RAM Cap or outside of the RAM mechanism through REIP or other adjustment mechanism and present these to the Commission for approval.” Granting the alternative relief proposed in footnote 6 of the Hawaiian Electric Companies’ Letters would circumvent this process and would undermine the apparent intent of the RAM Cap.

Potentially Relevant Order Citations:

The Hawaiian Electric Companies’ Letters cite only paragraph 108 of the Order in support of updating last year’s Depreciation and Amortization RAM using 2014 plant in service balances. Of particular relevance is the sentence within paragraph 108 that states, “[t]he 2014 RAM Revenue Adjustment used to determine the adjusted 2014 target revenues for purposes of determining the cap will be adjusted to use recorded 2014 end-of-year actuals (plant in service, depreciation and amortization, CIAC, and ADIT) rather than 2014 RAM year projections in determination of the 2014 Depreciation and Amortization RAM Expense and average rate base in the 2014 Rate Base RAM.” [emphasis added]. The Hawaiian Electric Companies have interpreted the reference in paragraph 108 to “Depreciation and Amortization Expense” quite literally, creating an opportunity to seek substitution of updated depreciation and amortization expense levels, based upon recorded December 31, 2014 plant investment that would recover depreciation and amortization expense amounts at the levels expected to be

booked in 2015. It is not apparent to the Consumer Advocate that this outcome was intended. Including estimated 2015 depreciation and amortization expense within the adjusted 2014 target revenues that would serve as the basis for the RAM Cap appears to violate several other provisions within the Order, as more fully described herein.

First, within paragraph 108, the prescribed adjustment to last year's RAM revenues is specified "...for purposes of determining the cap will be to use recorded end-of-year actuals....rather than RAM year projections..." Notably, Depreciation and Amortization RAM Expenses have never relied upon any RAM year investment projections, where such a substitution of recorded actual input data would have any meaning. Only the Rate Base RAM Adjustment utilizes any projected data. This can be observed at template Schedule D1, where the amounts in column (e) are projections that are added to recorded prior year-end balances in column (d), to yield end-of-year Rate Base values to calculate the needed two-point average rate base that is carried forward to line 8 of Schedule D.

In contrast, the quantification of Depreciation and Amortization RAM Adjustment on Schedule E has been based on prior year-end recorded amounts of depreciable and amortizable plant in service in column (b) in all previous RAM filings. There is simply no need to replace projected plant data with actual, recorded plant data to recalculate RAM year depreciation and amortization expense because no RAM year projections of plant in service were ever used in this process. If the underlined phrase "Depreciation and Amortization RAM Expense and" within paragraph 108 did not appear therein, the substitution of actual December 31, 2014 data for projected plant in service, depreciation and amortization, CIAC, and ADIT would properly align with the elements

of last year's Rate Base RAM where projections were actually employed (see Schedule D1, lines 1, 16 and 19).

We can observe, in paragraph 98 (page 90) of the Order, a different and more limited description of how the initial implementation of the RAM Cap should be determined. The paragraph 98 Order language does not invite any updating of the Depreciation and Amortization Expense RAM amounts that were determined in 2014:

The commission directs the HECO Companies to apply the RAM Cap starting with the determination of the 2015 RAM Revenue Adjustments. For the initial implementation of the RAM Cap and until the next general rate case for each company, the starting basis for determining the RAM Cap will be the 2014 target revenues adjusted upward to include the actual recorded end-of-year statements of net plant in service, depreciation and amortization, CIAC, and ADIT as the end-of-year rate base for the calculation of the 2014 RAM Revenue Adjustment. [emphasis added].

Here, the referenced "upward adjustment" is directed only to the "end-of-year rate base" where projected amounts were previously employed within the Schedule D1 calculations used to determine 2014 target revenues in last year's iteration of RAM revenue adjustments. Notably, the reliance on "end-of-year rate base" is only expressly authorized by the Commission to determine the 2014 average rate base for RAM Cap purposes.

Finally, on this point, the Consumer Advocate notes that paragraph 110 (page 96) states, "The RAM Cap will apply to the entire RAM Revenue Adjustment including the O&M RAM, Rate Base RAM (including Major Capital Projects and Baseline Projects), and the Depreciation and Amortization RAM." Thus, the RAM Cap is intended to limit overall RAM increases to a result similar to general inflationary pressures upon the utilities. With respect to Depreciation and Amortization Expense,

the Hawaiian electric Companies' proposed updating of 2014 target revenues to incorporate 2015 estimated depreciation and amortization expense, based upon recorded December 2014 plant in service levels, then escalating these updated expense amounts by GDPPI, is inconsistent with the stated scope of the RAM Cap. The resulting capped depreciation and amortization expense levels, under the Hawaiian Electric Companies' depreciation/amortization expense updating proposal, would exceed full recovery of depreciation and amortization expense that will be booked in 2015, because of the GDPPI multiplier, rendering the intended cap useless with respect to recoveries of depreciation and amortization expense in 2015. Given the nature of this issue, the Consumer Advocate anticipates that, without clarification or guidance regarding the Commission's intent with respect to the utilization of recorded actual December 31, 2014 input data rather than projections, this issue will also be further discussed in the May 15, 2015, statement of position.

ISSUE 3: IS THE GDPPI VALUE FOR USE IN THE ADMINISTRATION OF THE RAM CAP INTENDED TO BE BASED UPON A CONSENSUS PROJECTION OF EXPECTED RAM YEAR CHANGES IN PRICE LEVELS, AS EMPLOYED IN THE CURRENTLY EFFECTIVE RAM TARIFF, OR UPON THE CHANGE IN ACTUAL, GOVERNMENT-REPORTED GDPPI VALUES DURING THE PRIOR CALENDAR YEAR?

Company Position:

The Hawaiian Electric Companies have employed an estimated 2015 GDPPI growth rate percentage value, relying upon a consensus GDPPI estimate published by Blue Chip Economic Indicators. This approach has been used since the inception of the RAM tariff, for application as the Non-labor Cost Escalation Rate that is specified in the

“Definitions” section of the present and Company-proposed RAM tariff (see HECO Revised Sheet No. 93A). The applicable estimate can be observed within WP-C-002, which is a copy of the February 10, 2015 Blue Chip Economic Indicators publication. For 2015 RAM Cap purposes, the Hawaiian Electric Companies template Schedule J indicates application of the 1.10 percent GDP Price Index estimated growth rate for calendar year 2015 to the Hawaiian Electric Companies’ Adjusted 2014 Target Revenues. There is no mention of any consideration given to use of alternative GDPPI values within the Hawaiian Electric Companies’ transmittal Letters.

Potentially Relevant Order Citations:

The Commission’s Order repeatedly references “GDPPI”, but does not specify any particular source for the GDPPI data to be used in administration of the RAM Cap. At paragraph 70 (page 76), the Order quotes from the Consumer Advocate’s response to PUC-IR-4(e) regarding GDPPI. At paragraph 87 (page 85) the Order observes that, “[t]he practical effect of utilizing the option (c) approach may be very similar to the RAM results achieved through application of the GDPPI based revenue cap proposed in the Consumer Advocate’s Initial SOP and Reply SOP submissions in this docket. At the present time, non-labor O&M expenses that are not recoverable or tracked through another tracking mechanism (e.g., fuel, purchased power, pension, OPEBs) are already escalated using a GDPPI factor. This same GDPPI factor could be used to ensure that Rate Base RAM; and Depreciation & Amortization RAM increases do not exceed general inflation levels.” More discussion appears at paragraph 96 (page 90) of the Order:

96. The commission concludes that the GDPPI is an appropriate index to use in the determination of the RAM Cap. The commission's intent is to use the index as a measure of general inflation. As noted above, the commission concurs with the arguments presented by the Consumer Advocate in support of the GDPPI as an appropriate and preferred index in its response to PUC-IR-4(e). The commission prefers an indicator that is available in the public domain, such as the GDPPI. The commission further observes that the GDPPI is already used as the *index for non-labor expenses in the O&M RAM*.

The Consumer Advocate's response to PUC-IR-4(e) included reference to a U.S. Bureau of Economic Analysis ("BEA") publication that defines GDPPI, along with the arguments supporting use of GDPPI, rather than other indices in its proposed Performance Based Ratemaking recommendation. In the Consumer Advocate Schedule B Initial Statement of Position in this Docket, filed on May 20, 2014, the first of several "specific elements of a modified RAM" was stated at page 58 as follows:

1. Replacement of the O&M RAM, Rate Base RAM-Return on Investment, Depreciation & Amortization RAM expense calculations, essentially the entire RAM Adjustment, with a single target revenue cap escalated each year based upon the change in actual GDPPI, as reported by the U. S. Department of Commerce, Bureau of Economic Analysis ("BEA"), for the prior calendar year. [emphasis added]

The Consumer Advocate's proposed use of reported historical year data for GDPPI was intended to reduce the dependence upon third party publications and estimates, instead relying upon Federal government-reported actual GDPPI data. It is not clear from the Order whether the GDPPI input value, for purposes of the RAM Cap, is intended to be based upon prior year reported changes in GDPPI from BEA sources, as previously proposed by the Consumer Advocate, or

continued reliance upon the Blue Chip consensus estimates of expected future GDPPI change, as employed in the currently effective RAM mechanism.

As noted above, the Blue Chip source supports an estimated change in GDPPI for 2015 of 1.10 percent, which has been employed throughout the Hawaiian Electric Companies' amended tariff transmittals. If the BEA published change in GDPPI were used, the inflation experienced for the prior year 2014 would return a value of 1.24 percent, using Quarter IV 2014 compared to Quarter IV 2013 reported GDPPI values of 108.681 and 107.347, respectively.⁶ This is another that, without Commission clarification or guidance, the Consumer Advocate anticipates will be further discussion in the May 15, 2015 statement of position.

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Available at:

<http://www.bea.gov/iTable/print.cfm?fid=FA49FBB1A8E6B3ECF99ED341C7C23701C70885926E4605BD959B75D3612269902000BE1FCFC4F3656BE75D4947C97A35334EA881B5A756E1BC93C27351951B9D>.