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PUBLIC UTILITIES
COMMISSION

The Honorable Chair and Members
of the Hawai'i Public Utilities Commission
Kekuanaoa Building, First Floor
465 South King Street
Honolulu, Hawai'i 96813

Dear Commissioners:

Subject: Transmittal No. 15-03 (Decoupling) Hawaiian Electric's Amended RBA Rate Adjustment Tariff Filing
Transmittal No. 15-04 (Decoupling) Hawai'i Electric Light's Amended RBA Rate Adjustment Tariff Filing
Transmittal No. 15-05 (Decoupling) Maui Electric Company's Amended RBA Rate Adjustment Tariff Filing

The Hawaiian Electric Companies¹ appreciate the opportunity to respond to and summarize their position on the three matters raised in the Consumer Advocate's² Initial Identification of Issues ("Consumer Advocate Initial Issues")³, and two additional matters raised in PUC-IR-1 and in the Consumer Advocate's Information Requests ("IRs"), including CA-IR-12.⁴

The Commission⁵ modified the Rate Adjustment Mechanism ("RAM") in the Companies' decoupling tariffs by implementing a cap in Order No. 32735.⁶ In implementing the cap, the Commission emphasized that:

¹ Hawaiian Electric Company, Inc. ("Hawaiian Electric"), Hawai'i Electric Light Company, Inc. ("Hawai'i Electric Light") and Maui Electric Company, Limited ("Maui Electric") are collectively referred to as the "Hawaiian Electric Companies".

² The Division of Consumer Advocacy, Department of Commerce and Consumer Affairs is referred to as the "Consumer Advocate".

³ The Consumer Advocate's Initial Identification of Issues was filed April 29, 2015 as an Attachment 1 to a transmittal letter regarding the Hawaiian Electric's Transmittal No. 15-03, [etc.] (and is referred to in this response as "Consumer Advocate's Transmittal letter"). The Consumer Advocate noted in its Transmittal letter that it will continue its review and analysis of each issue (including discovery and discussion with the Hawaiian Electric Companies), and that it may be possible some of the issues that are preliminary identified may be resolved.

⁴ At the meeting among the Commission, the Consumer Advocate and the Companies on April 27, 2015, the Commission allowed the Companies to submit comments on the issues raised by the Commission and the Consumer Advocate.

⁵ The Hawai'i Public Utilities Commission is referred to as the "Commission".

⁶ Docket No. 2013-0141, Order No. 32735, filed March 31, 2015 is referred to as "Order No. 32735".

The commission stresses that these changes are designed to provide the commission with control of and prior regulatory review over substantial additions to baseline projects between rate cases. This Order does not deprive the HECO Companies of the opportunity to recover any prudently incurred expenditures or limit orderly recovery for necessary expanded capital programs. Instead, the Order limits the amount of unapproved capital project expenditures that can automatically be incorporated into effective rates through the RAM without timely prior regulatory review.⁷

The Companies filed Amended Annual Decoupling Filings on April 15, 2015 in accordance with Order No. 32735 under Transmittal Nos. 15-03, 15-04, and 15-05.⁸ In determining the new cap pursuant to Order No. 32735, the Companies took into account the specific language in the order, as well as the Commission's intent in establishing the cap as stated in the order.

The Consumer Advocate provides the way it construed certain provisions in the order, but generally does not attempt to conform its view of the provisions to the statements of intent in the order. The following sections discuss the three issues raised by the Consumer Advocate and the two subjects raised in IRs issued.

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 the Gross Domestic Product Price Index ("GDPPI") in quantifying the RAM cap? [Consumer Advocate's Transmittal Letter at 1; Consumer Advocate Initial Issues at 3-6.]
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The Hawaiian Electric Companies removed the 90% limitation in the calculation of the 2014 adjusted Rate Base RAM. The 90% limitation was ordered in Decision and Order No. 31908 ("D&O 31908") of Docket No. 2013-0141.⁹ Page 49 of D&O 31908 states that the modification is "intended to serve as an interim measure to at least partly mitigate the untenable characteristic of the existing RAM that allows the utilities' baseline expenditures to flow through the Rate Base RAM Adjustment fully and directly to increase allowed target revenues without prior review or approval by the commission and without the same measure of cost control incentives as provided by the other components of the RAM and RBA tariffs."

⁷ Order No. 32735 at 7.

⁸ The Companies' Amended Revenue Balancing Account Rate Adjustment Tariff filings under Transmittal Nos. 15-03, 15-04, and 15-05 on April 15, 2015.

⁹ D&O 31908 (pages 49 to 50) directed the Companies to implement a reduction in revenue increases to the RAM, by which the RAM would include the entire effective Rate Base RAM Adjustment from the prior year, but only 90% of the amount that the current RAM Period Rate Base RAM Adjustment exceeds the Rate Base RAM Adjustment from the prior year.

The Consumer Advocate commented whether the 90% limitation in the calculation of the 2014 adjusted Rate Base RAM should have been removed. The Consumer Advocate asked whether any "claw-back" of the 10% reduction that resulted from the 90% limitation was intended by the Commission in determining the 2014 adjusted Rate Base RAM to be used for prospective administration of the RAM Cap.¹⁰

As stated in D&O 31908 (page 49) the 90% limitation was an interim measure. It no longer applies with the implementation of the RAM Cap calculation described in Order No. 32735. Order No. 32735 directs a new way to calculate 2015 RAM revenues that starts with determining 2014 adjusted target revenues to be escalated by GDPPI. Page 82 of Order No. 32735 states that 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." Therefore, the calculation to determine the 2015 RAM Cap, which is implemented by Order No. 32735, replaces and excludes the 90% limitation previously required under Order No. 31908.

In addition, Order No. 32735 (pages 5 and 6) states that changes shall be applied to the decoupling filing due to be filed on March 31, 2015, including, among other things, that the 90% adjustment shall be removed in favor of the GDPPI cap:

(T)he commission concludes that further changes to the RAM are required and that these changes shall be applied to the decoupling filings due to be filed on March 31, 2015: . . . (3) The 90% adjustment shall be removed in favor of the GDPPI cap.

Simply put, because the Companies are now subject to a RAM cap, the 90% limitation no longer applies. This is true for determining the 2015 RAM and future RAM year RAMs under the "existing" tariff, as well as the 2014 Adjusted RAM subject to escalation in computing the 2015 RAM Cap. If the 2014 Adjusted RAM used in determining the 2015 RAM Cap included the 90% limitation, it would result in 2015 RAM revenues that are subject to the RAM Cap as implemented in Order No. 32735 and that have been limited by the 10% reduction implemented on an interim basis by D&O 31908. This would be inconsistent with the language in Order No. 32735 (page 6) that states that only one shall apply and not the other.

¹⁰ Consumer Advocate Initial Issues at 3-6.

2. In calculating the RAM cap, 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 factor? [Consumer Advocate's Transmittal Letter at 1; Consumer Advocate Initial Issues at 6-12.]

The Commission modified the Rate Adjustment Mechanism in the Companies' decoupling tariffs by implementing a cap in Order No. 32735. In Order No. 32735, the Commission set the RAM cap by starting with the 2014 Adjusted Target Revenue Base (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") and multiplying by the cumulative annually compounded increase(s) in GDPPI for intervening years, adjusted to include applicable revenue taxes.¹¹

With respect to the Depreciation and Amortization RAM target revenues included in the 2014 Adjusted Target Revenue Base, Paragraph 108 on page 95 of Order No. 32735 states that:

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 the 2014 RAM year projections in determination of the 2014 Depreciation and Amortization RAM Expense and average rate base in the 2014 Rate Base RAM.

The Companies' annual depreciation expense for the current year is based on the prior year ending plant in service balance. Order No. 32735 instructs the Companies to utilize 2014 end-of-year actual balances to determine the adjusted 2014 Depreciation and Amortization RAM expense. Therefore, the Companies utilized the 2014 end-of-year actual plant reduced by the CIAC balances to calculate the adjusted 2014 Depreciation and Amortization RAM for purposes of calculating the adjusted target revenues used in determining the RAM cap.¹²

¹¹ Order No. 32735 at 90-91, 93-94.

¹² Hawaiian Electric Revised Transmittal Letter at 3-5; Response to CA-IR-5.f.

The Companies calculates its Depreciation and Amortization RAM by multiplying the beginning of year plant-in-service and CIAC balances (equal to the prior year ending balance) by the respective depreciation and amortization rates to arrive at the depreciation and amortization expense for the year. Therefore, the Companies utilized the December 31, 2014 recorded plant in service and CIAC balances to determine the Depreciation and Amortization RAM in Attachment 2 of its filing, while excluding depreciation related to major projects in excess of Commission authorized amounts.

The adjusted Depreciation and Amortization RAM also excludes the amortization associated with the CIP CT-1 Regulatory Asset and CIS Deferred Costs (Order at 95, footnote 149), as these are items for which recovery has been explicitly stated in the Stipulated Settlement approved by the Commission. The 2015 RAM revenue

The 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 Companies' adjusted Depreciation and Amortization calculation includes the depreciation expense based on 2014 plant additions, but does not include actual depreciation expenses based on 2015 plant additions.

The Consumer Advocate questions whether the 2014 RAM depreciation and amortization expense should first be updated, based upon December 2014 recorded plant in service balances, in calculating the RAM cap, and suggests, as an alternative, that the unadjusted 2014 RAM depreciation and amortization expense, based on year-end 2013 plant-in-service balances should be used, and escalated only by the GDPPI factor. This means that there would be no adjustment to the 2014 Depreciation & Amortization RAM in calculating the adjusted target revenues used in determining the RAM cap.

Using the 2014 actual depreciation expense would result in the Companies not receiving recovery of depreciation expense arising out of 2014 plant additions (except for the incremental amount of expense equal to inflation, as measured by the change in GDPPI, times the 2013 depreciation expense amount), and would not reflect depreciation on the "approved utility rate base" (i.e., "recorded 2014 end-of-year actuals").¹³ The Companies would only begin to recover depreciation for the 2014 plant additions when they are able to reset their revenue requirements in a future rate case, but the recovery of depreciation expenses incurred for 2014 plant additions prior to the resetting of rates would be lost forever.

The Consumer Advocate's argument that the 2014 Depreciation & Amortization RAM should be used in calculating the adjusted target revenues used in determining the RAM cap does not take into account the explicit language in Paragraph 108, or the Commission's stated intent in making the modifications to the RAM.

The Commission modified the Rate Adjustment Mechanism in the Companies' decoupling tariffs by implementing a cap in Order No. 32735. In discussing its findings in support of its modifications to the RAM, the Commission reiterated that:

- The intent and purpose of the commission's amendments to the RAM are to:
- (a) maintain the current functions of the RAM to provide timely recovery of appropriate revenues between general rate cases; (b) ensure that sizeable capital

requirements associated with these items are added back to the 2015 RAM Cap to determine the Allowed RAM for 2015. There does not appear to be any issue regarding this adjustment.

¹³ The Depreciation and Amortization RAM recovered through the 2014 RBA rate adjustment did not include depreciation expense for 2014 plant additions, because under the Companies' methodology of calculating depreciation, the depreciation accrual is based on the prior year ending (2013) plant in service balance.

expenditures are examined by timely review prior to automatic inclusion in effective rates through the RAM; (c) avoid adding further complexity to the decoupling mechanisms; and (d) fundamentally ensure that the RAM results in rates that are just and reasonable.¹⁴

The Commission again emphasized that:

The amendments to the RAM are not designed to limit the Companies' recovery of necessary and reasonable revenue requirements. Nor is it the intent of the amendments to shift or reallocate any costs or risks associated with the incumbent decoupling mechanisms or ratemaking process between the Companies and ratepayers.¹⁵

Further, the Commission noted that:

As discussed throughout this Order, one major purpose for this amendment is to limit the amount of **unapproved** capital project net plant additions that can automatically be incorporated into effective rates through the RAM. The HECO Companies may still recover certain revenue requirements above what is allowed for automatic revenue adjustment for additional capital projects through the RAM, REIP, or other mechanisms, by obtaining prior approval from the Commission on a case by case basis.¹⁶

The Commission then stated that:

With respect to recovery of revenues for capital projects, the amended RAM will thus allow continued automatic revenue recovery for capital project net plant additions in an amount effectively in rough approximation to the rate of depreciation and amortization on approved utility rate base, plus an increment of effective rate base indexed on general inflation.¹⁷

In calculating the new cap pursuant to Order No. 32735, the Companies took into account the specific language in the order, as well as the Commission's intent in establishing the cap as stated in the order.

The amendments to the RAM are not designed to limit the Companies' recovery of necessary and reasonable revenue requirements. However, calculating the 2014 Adjusted Target Revenue

¹⁴ Order No. 32735 at 80.

¹⁵ Order No. 32735 at 80-81.

¹⁶ Order No. 32735 at 81.

¹⁷ Order No. 32735 at 82. See also Order No. 32735 at 6, n.4.

Base without taking into account the actual depreciation expense and revenue requirements associated with the actual 2014 plant additions would effectively eliminate the Companies' ability to recover costs arising out of plant additions that were already in service before the modification to the RAM.

One major purpose for the amendment is to limit the amount of **unapproved** capital project net plant additions that can automatically be incorporated into effective rates through the RAM. Paragraph 108 makes it clear that the adjusted 2014 target revenues would be based on the recorded 2014 end-of-year actuals for plant in service to determine the average rate base in the 2014 Rate Base RAM. Therefore, the "approved utility rate base" for purposes of the new RAM cap includes actual 2014 plant additions. Hence, in order to achieve the methodology specified in footnote 4 of the Order – that the "amended RAM will allow continued automatic revenue recovery of capital project net plant additions in an amount effectively in rough approximation to the rate of depreciation and amortization on approved utility rate base, plus an increment of effective rate base indexed on general inflation" – it is essential for the depreciation expense used to calculate the adjusted 2014 target revenues to include depreciation of 2014 plant additions.

With respect to recovery of capital projects, the amended RAM is intended to allow continued automatic revenue recovery for capital project net plant additions in an amount effectively in rough approximation to the rate of depreciation and amortization on approved utility rate base, plus an increment of effective rate base indexed on general inflation. The rate of depreciation on approved utility rate base is the rate base adjusted for 2014 actual plant additions, **not** the 2013 end of year rate base.

The Companies' proposed depreciation treatment also is consistent with and is in the spirit of the following statement on page 7 of Order No. 32735:

The commission stresses that these changes are designed to provide the commission with control of and prior regulatory review over substantial additions to baseline projects between rate cases. This Order does not deprive the HECO Companies of the opportunity to recover any prudently incurred expenditures or limit orderly recovery for necessary expanded capital programs. Instead, the Order limits the amount of unapproved capital project expenditures that can automatically be incorporated into effective rates through the RAM without timely prior regulatory review. [Emphasis added.]

As noted above, not being able to include depreciation on 2014 plant additions in the 2015 RAM Cap when 2014 plant investments have already been made (and providing service to customers) would preclude the Companies from ever recovering the depreciation for 2014 plant additions for the 2015 RAM Period going forward.

The annual amount that the Companies would lose by not being able to include depreciation on 2014 plant additions in the 2015 RAM Cap is substantial. The table below shows the difference in the RAM Cap amounts for each of the Hawaiian Electric Companies, when the depreciation and amortization expense is based on December 31, 2013 recorded depreciable and amortizable plant balances instead of December 31, 2014 recorded depreciable and amortizable plant balances.¹⁸

RAM Allowed – (Lesser of RAM Cap or RAM per existing tariff excl 90% RB RAM limitation)	(A) Using 2013 recorded depreciable and amortizable plant balances (\$000)	(B) Using 2014 recorded depreciable and amortizable plant balances (\$000)	(C) = (B) - (A) Difference (\$000)
Hawaiian Electric	\$80,545	\$89,587	\$9,042
Maui Electric	\$10,726	\$12,039	\$1,313
Hawai'i Electric Light	\$6,610	\$7,179	\$569

For the Hawaiian Electric Companies, the reduction in RAM revenue would be almost \$11 million¹⁹ for the 2015 RAM periods alone.

The Consumer Advocate argues that the effect of Order No. 32735 is to use the depreciation and amortization expense for 2015 in calculating the adjusted target revenues used in determining the RAM cap.²⁰

As is indicated above, Order No. 32735 does not state that the depreciation and amortization expense to be used in determining the RAM Cap does **not** state or indicate that it shall not be the amounts recorded in calendar year 2015. Instead, Paragraph 108 orders the Companies to use 2014 end-of-year actual balances in calculating depreciation and amortization expense. That is what the Companies did. The use of 2014 ending investment balances in determining the RAM Cap also is consistent with the Commission's treatment of including all 2014 plant additions in the adjusted 2014 Rate Base RAM return on investment determination per paragraphs 98 and 108.²¹

¹⁸ Responses to CA-IR-4.a, b, c, d and Attachments 1-3 to the response

¹⁹ Comprised of the following: Hawaiian Electric: $\$80,545 - \$89,587 = -\$9,042$, Maui Electric: $\$10,726 - \$12,039 = -\$1,313$, Hawai'i Electric Light = $\$6,610 - \$7,179 = -\$569$. Note that Hawai'i Electric Light's current RAM of \$7,179 is based on the existing tariff, which is less than its calculated RAM Cap.

²⁰ See Consumer Advocate Initial Issues at 8, 10.

²¹ Response to CA-IR-5.g.

The Consumer Advocate notes that, after the prior year 2014 Depreciation and Amortization RAM is restated using recorded end-of-year 2014 plant in service balances, the resulting 2014 Depreciation and Amortization RAM amount is further escalated by the 2015 GDPPI index.²²

Escalating by the 2015 GDPPI index follows Order No. 32735, page 96, which stated that the 2014 Adjusted RAM revenues used to determine 2014 adjusted target revenues shall be incremented by the GDPPI. The result contributing to the 2015 RAM Cap is not an estimate of calendar year 2016 depreciation and amortization expense. It is simply the Companies' literal and mathematical interpretation of the Order. However, the Companies realize that further escalating the 2015 Depreciation and Amortization RAM expense amount by GDPPI results in an amount in the RAM Cap above the actual 2015 Depreciation and Amortization expense, and are willing to make an adjustment to reduce the RAM Cap for the amount in excess of the 2015 Depreciation and Amortization expense.²³ The effect of this adjustment would be \$2.2 million for all three Companies: \$1.45 million for Hawaiian Electric, \$.29 million for Maui Electric and \$.47 million for Hawai'i Electric Light.²⁴

The Consumer Advocate suggests that "the stated purpose of the RAM Cap [is] to limit annual growth in RAM revenue changes to the cumulative growth in GDPPI."²⁵ Thus, the Consumer Advocate questions whether the increase in the proposed target revenue level for 2015 should somehow be limited to change in the GDPPI factor, citing Paragraph 110 of Order No. 32735.²⁶

²² See Consumer Advocate Initial Issues at 8, 12.

²³ Response to CA-IR-6.e. Going forward, the Companies understand that the RAM must be calculated in two ways: (1) under the "existing" tariff and procedures and (2) under the RAM Cap methodology described in Order No. 32735. In accordance with Order No. 32735, the lesser of the two will be the RAM allowed in rates. For the 2016 decoupling filing, the Companies will utilize the prior year (2015) ending plant in service balances to determine the 2016 Depreciation & Amortization RAM in accordance with "existing" tariff and procedures. To determine the RAM Cap for 2016, the Companies will escalate the 2015 target revenues (based on the "Basis" described in paragraph 107 of Order No. 32735) by GDPPI to determine the RAM Cap for 2016. Therefore, the 2016 RAM Cap will be determined by a continued escalation of the base already determined for the 2015 RAM Cap. The Companies will not use recorded end-of-year 2015 plant in service balances to determine a new Depreciation & Amortization RAM under the RAM Cap methodology. Response to CA-IR-6.g.

²⁴ The adjustments for the three Companies are calculated as follows:

	Reference	Hawaiian Electric	Maui Electric	Hawai'i Electric Light*
Depreciation & Amortization in Current Revenues (not including RAM), grossed up for rev tax	Sch E x 1.0975	\$ 103,426,427	\$ 22,974,261	\$ 36,447,233
2015 Depreciation & Amortization RAM, as filed on 3/31/15	Sch E, WP-J-002	\$ 31,142,599	\$ 3,394,698	\$ 6,686,314
Less: Depreciation & Amortization related to CIS Def Cost and CT-1 Reg Asset	WP-J-002	(2,385,965)	(255,829)	(234,278)
2015 Depreciation & Amortization Revenues less CIS Def Cost, CT-1 Reg Asset	Lines 1 - 3	\$ 132,183,061	\$ 26,113,130	\$ 42,899,268
GDPPI escalator		1.10%	1.10%	1.10%
2015 Depr & Amort RAM per RAM Cap in excess of actual 2015 Depreciation & Amortization	Line 4 x 5	\$ 1,454,014	\$ 287,244	\$ 471,892

* Hawai'i Electric Light's impact only relevant if subject to RAM Cap.

²⁵ See Consumer Advocate Initial Issues at 8-9

²⁶ See Consumer Advocate Initial Issues at 11-12. Hawaiian Electric has calculated a proposed target revenue level for 2015 of \$593.8 million, which is 3.2 percent higher when compared to target revenue level for 2014 of \$575.3 million. Response to CA-IR-8.a. As stated above, Hawaiian Electric estimates that the impact of utilizing the 2014 Depreciation and Amortization recorded expense based on 2013 net plant additions (and no 2014 net plant

The Companies' proposed RAM Cap, target revenues and Depreciation and Amortization RAM for 2015 are entirely consistent with Paragraph 110.²⁷ Paragraph 110 of Order No. 32735 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." Order No. 32735 makes it clear that the 2014 target revenues would be **adjusted** for the purpose of calculating the RAM Cap and that the GDPPI would be applied to the **adjusted** 2014 target revenues to calculate the RAM Cap.

Thus, the increase in the June 1, 2015 target revenues as compared to the June 1, 2014 target revenues is and should be greater than the 1.1 percent GDPPI, based on Order No. 32735, paragraph 108 on pages 95 and 96:

- "...the target revenues that will serve as the Basis for the incremented cap will be the 2014 annualized target revenues adjusted (underlined for emphasis) as follows...."
- "The adjusted (underlined for emphasis) 2014 target revenues will be incremented by the GDPPI index to determine the RAM Cap as provided above."

The Companies have adjusted the 2014 target revenues consistent with the provisions of Order No. 32735, and applied the GDPPI factor to calculate the RAM Cap for 2015. Therefore, the 1.1 percent GDPPI growth factor was appropriately applied to "adjusted" target revenue, as opposed to the June 1, 2014 Annual Target revenue.

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? [Consumer Advocate's Transmittal Letter at 1-2; Consumer Advocate Initial Issues at 12-15.]

In Order No. 32735, the Commission set the RAM cap by starting with the 2014 Adjusted Target Revenue Base, and multiplying it by the cumulative annually compounded increase(s) in GDPPI for intervening years, adjusted to include applicable revenue taxes.²⁸

After incorporating the appropriate adjustments into its 2014 Adjusted Target Revenue Base, the Companies escalated the 2014 adjusted target revenues by the 2015 GDPPI index of 1.1%.²⁹ In

additions) would result in a proposed target revenue level at June 1, 2015 of approximately \$584.8 million, which is about \$9.0 million less than the RAM Cap filed. Response to CA-IR-8.b.

²⁷ Response to CA-IR-8.c.

²⁸ Order No. 32735 at 90-91, 93-94.

²⁹ Hawaiian Electric Revised Transmittal Letter at 6 & n.7. See Schedule J in Attachment 2 to the Transmittal.

implementing the new cap provision, the Companies used the same GDPPI escalator that is used to determine the O&M RAM.

The Consumer Advocate now suggests that the actual GDPPI increase for the prior year be used instead, apparently because it suggested using the actual GDPPI increase for the prior year in its proposal in its Initial Statement of Position for Schedule B.³⁰ In support of its suggestion, the Consumer Advocate contends that the Commission's order does not specify any particular source for the GDPPI data to be used in administration of the RAM Cap.³¹ That is not entirely correct, however.

In Order No. 32735, the Commission stated that: "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."³² The order also noted that: "The commission further observes that the GDPPI is already used as the index for non-labor expenses in the O&M RAM."³³

Thus, even though the order does not directly state that the same GDPPI factor used in determining the O&M RAM should be used for the RAM Cap, there is no basis in the order for using a different GDPPI factor.

Further, the GDPPI escalator that is used to determine the O&M RAM was the result of the Joint Decoupling Proposal submitted by the Hawaiian Electric Companies and the Consumer Advocate in the initial Decoupling Investigation Proceeding (Docket No. 2008-0274), and its use was proposed by the Consumer Advocate.³⁴

Using the GDPPI forecasted for the RAM period for the calculation of the RAM Cap is appropriate because it matches the time period of the escalation index with the time period of the change in target revenues (e.g., applying the expected rate of escalation from 2014 to 2015 to determine the change in target revenues from 2014 to 2015). Using the actual GDPPI increase for the prior year would result in a mismatch of the time periods for escalation and the change in target revenues (e.g., using the actual escalation experienced from 2013 to 2014 to determine the increase in target revenues from 2014 to 2015).

³⁰ See Consumer Advocate Initial Issues at 12.

³¹ See Consumer Advocate Initial Issues at 13.

³² Order No. 32735 at 85 (emphasis added).

³³ Order No. 32735 at 90.

³⁴ See Joint Final Statement of Position of the HECO Companies and Consumer Advocate, filed May 11, 2009 in Docket No. 2008-0274 (the "JFSOP"), at 14-15; Exhibit C to JSOP at 4-5; Att. 1 to Exh. C at 3-4; Att. 4 to Exh. C at 1-2.

In addition, the use of a GDPPI escalator that is used to determine the O&M RAM results in a lower escalator for the 2015 RAM period,³⁵ perhaps because it is an estimated escalator for 2015, and not an actual escalator for a prior period.

4. Change in Method of Allocating Charges Out of the Energy Delivery and Power Supply Clearing Accounts

PUC-IR-1 raised questions concerning the Hawaiian Electric Companies' change in the method of allocating the charges out of the Energy Delivery ("ED") and Power Supply ("PS") clearing accounts. As discussed below, the new method of allocating charges out of the clearing accounts is appropriate in light of the changes to the Companies' business operations and the need for consistent application of the on-costs (i.e., overhead costs) to all work in operations, regardless of whether the project was performed by internal labor or contract services, for consistency in project costs and billing customers. One of the effects of the 2014 change in allocation methodology was to allocate a greater portion of ED and PS on-costs from expense to capital accounts. This created an opportunity for the Companies to fund some of the necessary expense initiatives and still control and manage their expense spending. On the other hand, the on-costs that were allocated to capital accounts under the new allocation method had nominal bill impacts. The revision in the allocation of charges out of the ED and PS clearing accounts was considered a change in estimate, and not a change in accounting, in the Companies' audited financial statements.

Implementation of the Change

As explained in Hawaiian Electric's 2014 test year abbreviated rate case filing ("2014 Abbreviated Rate Case Filing")³⁶, Hawaiian Electric changed the method of allocating the charges out of its ED and PS clearing accounts commencing January 1, 2014. Following Hawaiian Electric's implementation as of January 2014, both Hawai'i Electric Light³⁷ and Maui Electric³⁸ implemented the change as of April 2014.

The Hawaiian Electric Companies changed the method of allocating the charges out of the ED and PS clearing accounts, but did not change the types of charges included in the ED and PS clearing accounts. For example, Hawaiian Electric beginning in 2014 made two changes to its

³⁵ See Consumer Advocate Initial Issues at 15.

³⁶ Docket No. 2013-0373, Attachment 2, page 96.

³⁷ Hawaii Electric Light's implementation was limited to its ED clearing account as it currently does not have a PS clearing account.

³⁸ Maui Electric's implementation effective April 2014 was discussed in its 2015 test year rate case filed December 30, 2014 in Docket No. 2014-0318, Attachment 7, page 3.

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allocation of charges out of both the ED clearing, account no. 184060, and the PS clearing, account no. 184050.

1. The charges in the clearing accounts are separated between vehicles costs and non-vehicle costs, and
2. The allocation basis for non-vehicle costs was changed to be based on applicable total cost (in dollars) for capital projects, O&M activities and other activities in the respective process area.

The new allocation methodology was developed based on a PA Consulting Group ("PA") study.³⁹ The study compared the Companies' practices for clearing operations-related on-costs to a panel of representative U.S. electric utility companies.⁴⁰ After surveying 13 utilities across the United States, PA found that with the exception of two utilities, the utilities allocate energy delivery indirect process area costs to projects regardless of whether the work was performed by companies or contractor crews. Generally, for other utilities, the allocation of operations area indirect costs is based on total project costs. To better allocate the indirect process area costs to all projects, PA recommended that the Hawaiian Electric ED and PS on-cost process be enhanced to allow certain costs accumulated in the ED and PS indirect cost pool to be allocated based on total project costs rather than internal labor hours.⁴¹

Reasons for the Change

As stated in the Hawaiian Electric 2014 Abbreviated Rate Case Filing, Attachment 2, page 96, "The driving factor in changing the methodology for allocating the ED and PS clearing charges is that the Company business operation is changing, and there was a need to respond to the changes. The Company is increasing the use of outside contractors. There was a need for consistent application of on-costs to all work in Operations whether the project was completed by internal labor or contract services for consistency in project costs and billing customers." For example, [REDACTED]. There are significant amounts of construction required by outside contractors to complete the [REDACTED]. Hawaiian Electric will be compensated for the cost of the [REDACTED] through contributions in aid of construction, which would include allocations of a substantial amount of on-costs resulting from the new methodology. Without the new methodology, compensation for these on-costs would be lost and the cost would ultimately be absorbed by Hawaiian Electric and its customers. If Hawaiian Electric had continued to allocate the ED and PS clearings based on labor hours instead of total dollars, other projects including customer projects with contributions would have incorrectly borne part of the higher on-costs related to the [REDACTED]. The new allocation

³⁹ 2014 Abbreviated Rate Case Filing, Attachment 2, page 97.

⁴⁰ A copy of the PA study prepared for Hawaiian Electric in December 2013 was provided in HECO-1331 in Docket No. 2013-0373.

⁴¹ Response to PUC-IR-1.b.

methodology more accurately and fairly allocates the Company's on-costs to all projects including system and customer projects completed by either internal labor or outside services. This is an important change in on-cost allocation that is needed to correctly cost projects including large external customer projects with contributions.⁴²⁴³

Other costs charged to the ED and PS clearing accounts (namely vehicle costs) continue to be cleared based on internal labor hours as internal labor hours continue to reflect the underlying cost drivers for these costs. The new allocation method that the Companies implemented in 2014 is in alignment with the PA Study results. In addition, the revision in the allocation of charges out of the ED and PS clearing accounts was considered a change in estimate, and not a change in accounting, in the Companies' audited financial statements.⁴⁴

Treatment of On-Costs Resulting from the Change in Allocation Methodology is Appropriate

One of the results of the change in allocation is that some of the ED and PS on-costs previously charged to O&M expense accounts are allocated to capital projects, cost of removal accounts and other accounts.⁴⁵ The Companies' response to PUC-IR-1.b explains the various ways the change in the method of allocating charges out of the ED and PS clearing accounts could impact the RAM.

One of the effects in 2014 of the new allocation methodology was to allocate a greater portion of ED and PS on-costs from expense to capital.⁴⁶ This reduces O&M expenses. While these lower

⁴² Response to PUC-IR-1.b.

⁴³ This letter contains confidential customer-specific information. Such type of information is confidential and has been protected from disclosure in other proceedings, and the public disclosure of such information has not been consented to by the customer. Therefore, the Companies are filing the information subject to the terms of Protective Order No. 2015-PO-06 dated January 26, 2015.

⁴⁴ Response to CA-IR-2.

⁴⁵ Response to PUC-IR-1, Attachment 4, pages 1 to 5, illustrate the change in allocation of ED and PS on-costs to different account groups for Hawaiian Electric, Hawaii Electric Light, and Maui Electric. In CA-IR-1, Attachment 1, the amounts allocated to other clearing accounts have been further allocated to show the estimated final distribution impacts of the Companies' 2014 change in allocation of ED and PS clearing accounts between expense accounts, capital accounts, and other accounts. Response to CA-IR-1.a.

⁴⁶ The estimated 2014 pretax earnings impacts of the 2014 change in allocation for ED and PS clearing accounts are represented by the O&M expense and nonutility expense line items in CA-IR-1, Attachment 1. For Hawaiian Electric, the total 2014 expense impact is estimated at -\$8,282,105, consisting of -\$5,074,404 for ED and -\$3,207,701 for PS. For Hawaii Electric Light, the total estimated 2014 expense impact is -\$470,245 for its ED clearing account. For Maui Electric, the total 2014 expense impact is estimated at -\$1,215,520, consisting of -\$1,026,730 for ED and -\$188,790 for PS. Response to CA-IR-1.b.

The 2015 capital and expense impacts of the 2014 change in the ED and PS allocation change will be impacted by a number of factors such as the relative levels of spending for work on capital projects compared to work charged to expense accounts, and the relative use of Companies' labor compared to the use of outside contractors. To the extent these factors are similar in 2015 and 2014, the impact of the ED and PS allocation change to capital projects and expense accounts estimated for 2014 provided in CA-IR-1, Attachment 1 is a reasonable approximation of the

O&M expenses were not included in the 2015 O&M RAM, the Companies have experienced increases in O&M expenses since their last rate cases that modified base rates that are greater than the reduction in O&M expenses associated with the new allocation methodology. As a result, in the broader context, the new allocation methodology allows the Companies to operate under the O&M RAM.

The growth in O&M expenses since each Company's last rate case that modified base rates has been greater than the increases in O&M expenses permitted to be recovered through the O&M RAM. Hawaii Electric Light, whose last rate case test year that modified base rates was 2010, and Hawaiian Electric, whose last rate case test year that modified base rates was 2011 in particular have had to deal with this situation. The Companies have incurred significant amounts of expenses that were not included in the test year estimates from their last rate cases, including for Hawaiian Electric \$8.7 million in costs for the Initial Phase of Smart Grid, \$2.3 million in costs to examine the possibility of using liquefied natural gas ("LNG") as a cleaner and lower cost fuel to replace the petroleum oil used for generation, and \$0.7 million in costs for studies and consultant costs to determine feasibility and solutions to integrate more PV into our systems, and for Hawaii Electric Light \$4 million in vegetation management, and additional costs related to tropical storms.^{47 48} Therefore, even though the O&M RAM is mathematically based on escalations of test year O&M expenses, many more initiatives have arisen since each Company's last rate case that modified base rates that have required management of costs limited to the O&M RAM.⁴⁹

As explained earlier, Hawaiian Electric implemented the new methodology in January 2014 with Maui Electric and Hawai'i Electric Light implementing in April 2014. The O&M RAM is based on the O&M expense amounts approved by the Commission in the last issued decision and order in each Company's most recent test year general rate case, subject to certain adjustments. These rate cases are the 2011 test year rate case for Hawaiian Electric, the 2012 test year rate case for Maui Electric and the 2010 test year rate case for Hawai'i Electric Light.⁵⁰ Because the

2015 impacts for Hawaiian Electric. For Hawaii Electric Light and Maui Electric, since the estimated 2014 impacts shown in Attachment 1 reflect April 2014 implementation of the ED and PS clearing account allocation method change, the annualization of the amounts shown in Attachment 1 would be representative of the estimated 2015 impact of the change. Response CA-IR-1.c.

⁴⁷ For example, in the Tropical Storm Iselle Report filed November 20, 2014, Hawaii Electric Light reported incurring O&M expenses of approximately \$3,950,000 to promptly and safely respond to and restore service in the aftermath of Tropical Storm Iselle, and that those costs clearly exceeded the level of storm related expenses included in current electric rates.

⁴⁸ Response to PUC-IR-1.f.

⁴⁹ Response to PUC-IR-1.f.

⁵⁰ Response to PUC-IR-1, Attachment 1, pages 1-2, provides the ED and PS on-costs included in O&M expense accounts, by NARUC account block, for the Hawaiian Electric 2011 test year rate case. Response to PUC-IR-1, Attachment 1, pages 3 and 4 provide similar ED and PS on-costs that Hawai'i Electric Light included in test year O&M accounts in its 2010 test year rate case. Response to PUC-IR-1, Attachment 1, pages 5 and 6 provide ED and PS on-costs that Maui Electric included in test year O&M accounts in its 2012 test year rate case.

Companies implemented the revised methodology after the test years for these rate cases, the allocation of a smaller portion of the on-costs to expense is not reflected in the 2015 O&M RAM. However, in the broader context, the Companies have not raised their base rates since the implementation of the final rates in those last completed rate cases.⁵¹ The table⁵² below shows that the estimated test year O&M expenses (not including fuel or purchased power expenses) in the 2013, 2014 and 2015 test year rate cases were higher than the amounts approved in the prior rate cases for each Company.⁵³ Over the same periods, the O&M RAM for each Company was significantly less than the increase in estimated O&M expenses.

	(A)	(B)	(C)	(D)	(E) = (D)-(B)	(F)	(G) = (F) - (E)
	Last Final Test Year	O&M Expenses (\$000)	Abbreviated/ Withdrawn Test Year	Estimated O&M Expenses (\$000)	Estimated O&M Expense Increase (\$000)	O&M RAM Over Same Period (\$000)	Estimated Difference in O&M (\$000)
Hawaiian Electric	2011	\$258,402	2014	\$290,998	\$32,596	\$10,257	(\$22,339)
Maui Electric	2012	\$61,378	2015	\$68,752	\$7,374	\$2,441	(\$4,933)
Hawai'i Electric Light	2010	\$51,580	2013	\$65,415	\$13,835	\$2,016	(\$11,819)

For Hawaiian Electric and Maui Electric, the 2014 and 2015 test year O&M expenses reflected a lower allocation of on-costs to expense but this reduction was more than offset by other O&M expenses that increased.

In 2014, the new methodology reduced O&M expenses in 2014 for Hawaiian Electric by \$8,280,000, for Maui Electric by \$1,214,000 and Hawaii Electric Light by \$470,000.⁵⁴ Some of the major O&M increases incurred in 2014 are mentioned above. With the foregoing of these rate increases that encompass the higher O&M expenses, customers benefit by more than the amount of the reduction in O&M expense due to the new allocation methodology. Hence, although a higher allocation of on-costs to capital is reflected in the adjusted 2014 target revenues that determine the RAM Cap and in capital projects that could be eligible for recovery

⁵¹ Hawai'i Electric Light withdrew its 2013 test year rate case pursuant to the Stipulated Settlement Agreement approved by Order No. 31126 in Docket No. 2008-0083. Hawaiian Electric filed an abbreviated 2014 test year rate case in Docket No. 2013-0373, in which it proposed to forego the opportunity to seek a general rate increase in base rates. Maui Electric filed an abbreviated 2015 test year rate case in Docket No. 2014-0318 and also proposed to forego a general rate increase in base rates.

⁵² See Attachment 1 to this letter.

⁵³ Response to PUC-IR-1.f.

⁵⁴ The 2014 O&M expense impacts are provided in CA-IR-1, Attachment 1, and are identified by "Ind" (Indicator) codes "NE" and "NS".

outside of the RAM Cap, customers have benefited to an even greater extent from the Companies forgoing increases in base rates in the last round of rate cases.

The allocation of a greater portion of these on-costs from expense to capital also created an opportunity for the Companies to fund some of these necessary expense initiatives and still control and manage their expense spending. On the other hand, the on-costs that were allocated to capital under the revised accurate and fairer allocation methodology had nominal impacts of \$390,000 for Hawaiian Electric, \$72,000 for Maui Electric, and \$36,000 for Hawai'i Electric Light on the 2015 RAM, or a monthly bill impact of $-\$.03$ for Oahu, $-\$.02$ for Hawaii Island, $-\$.04$ for Maui, and $-\$.03$ for Molokai and Lana'i, as indicated below.⁵⁵

Impacts of Various Adjustments

The new method of allocating ED and PS on-costs is appropriate in light of the changes to the Companies' business operations and the need for consistent application of on-costs to all work in Operations, regardless of whether the project was performed by internal labor or contract services, for consistency in project costs and billing customers. However, if changes are made to the new method of allocating charges out of clearing that commenced on January 1, 2014 for Hawaiian Electric, and in April 2014 for Hawaii Electric Light and Maui Electric, then a prospective change back to the prior method should be implemented – i.e., not require the Companies to reverse the allocations already made under the new methodology. The Commission has already ordered that future RAM increases are subject to a RAM Cap that does not distinguish between O&M and capital. Therefore, the change in on-cost methodology affecting baseline projects would be subject to the cap. Additionally, clearing costs allocated to major project and other project applications as specified in Order No. 32735 outside of the RAM Cap will be subject to the Commission's review and approval prior to recovery.⁵⁶

As discussed above, the Companies have incurred significant amounts of O&M in 2014 due to high-priority initiatives and unforeseen circumstances. These additional costs benefit customers, have been supported by the Commission⁵⁷, and were not originally in each Company's last rate cases that modified base rates. Because the O&M RAM is essentially capped based on indexed increases of test year O&M, these amounts, if combined with changes in on-costs previously classified as O&M, would have significantly exceeded the revenues provided by the O&M RAMs. Additionally, the Companies calculated their 2015 Rate Base RAM adjustments in accordance with the current RAM provisions and recent Order No. 32735, and therefore, the recorded plant additions amounts used are an accurate reflection of capital and not O&M.

⁵⁵ Response to CA-IR-1.e.

⁵⁶ Response to PUC-IR-1.g.

⁵⁷ See the "Commissions' Inclinations on the Future of Hawaii's Electric Utilities," pages 8-9 and 16-17, filed on April 28, 2014 as part of Docket No. 2012-0036 (Integrated Resource Planning), D&O No. 32052, Exhibit A.

Therefore, if changes are made to the new method of allocating charges out of clearing, the Companies request that no adjustments be made to 2014 activities and the filed 2015 RAMs.⁵⁸

If the Companies are required to revert to the old methodology retroactive to January 1, 2014⁵⁹, then the Companies would have to submit an adjustment to the Rate Base and Depreciation & Amortization RAMs calculated in the Companies' 2015 RAM Filings made on April 15, 2015. As stated previously, the impact is estimated to be a reduction in Rate Base and Depreciation & Amortization RAM revenues for each Company as follows: -\$390,000 for Hawaiian Electric, -\$72,000 for Maui Electric, and -\$36,000 for Hawai'i Electric Light.⁶⁰ These amounts would be excluded from target revenues in 2015, and in future years.

If the Companies are required to revert to the old allocation methodology retroactive to January 1, 2014, then the Companies would have to reflect this change in 2015 for financial reporting purposes.⁶¹ The resulting impact would be significant. For the three Companies combined, the charge to expense in 2015 would be approximately \$10 million.⁶²

If the Companies are required to revert to the old allocation methodology retroactive to January 1, 2014, the Companies request that they be given the opportunity to file an application for the recovery through the 2015 or future RAM Revenue Adjustment outside of the RAM Cap of O&M expenses due to new initiatives not incorporated in the RAM target revenues, such as the Smart Grid Initiatives, costs related to examine the feasibility of LNG, and studies and consultant costs to determine the feasibility of more PV integration.⁶³ This could be done as part of the "explicitly stipulated and approved exceptional or other matters" category outlined in paragraph 107 on page 94 of Order No. 32735. Because recovery of the expenses would be

⁵⁸ Response to PUC-IR-1.g.

⁵⁹ Retroactive to April 1, 2014 for Maui Electric and Hawai'i Electric Light.

⁶⁰ See CA-IR-1 Attachment 4. Results in a monthly bill impact of -.03 for Oahu, -.02 for Hawaii Island, -.04 for Maui, and -.03 for Molokai and Lanai. CA-IR-1, Attachment 4, pages 1 and 2.

⁶¹ The Companies would reverse entries in 2014 that were made to capital and put those amounts in O&M expense. For financial reporting purposes the higher level of O&M expenses (and lower level of capital) would appear in 2015.

⁶² Response to CA-IR-1.b. The estimated pretax earnings impact of the 2014 change in allocation for ED and PS clearing accounts for O&M expense and nonutility expense were provided in CA-IR-1, Attachment 1, and were - \$8,282,105 for Hawaiian Electric, -\$470,245 for Hawaii Electric Light, and -\$1,215,520 for Maui Electric.

⁶³ As previously discussed, the Companies have incurred significant amounts of expenses that were not included in the test year estimates from their last rate cases, including for Hawaiian Electric \$8.7 million in costs for the Initial Phase of Smart Grid, \$2.3 million in costs to examine the possibility of using liquefied natural gas ("LNG") as a cleaner and lower cost fuel to replace the petroleum oil used for generation, and \$0.7 million in costs for studies and consultant costs to determine feasibility and solutions to integrate more PV into our systems, and for Hawaii Electric Light \$4 million in vegetation management, and additional costs related to tropical storms. For the purposes of the 2015 RAM Revenue Adjustment these costs were not included in the O&M expense amounts approved by the Commission in the last issued general rate case decision and order for each Company and are not accounted for in the escalations of test year O&M expenses included in the O&M RAM.

treated outside of the RAM Cap, they would not be part of the annualized target revenue amount carried forward each year and subject to escalation in determining the RAM Cap. Additionally, Maui Electric requests that it be given the opportunity to file a request for the recalculation of its 2014 year-end Earnings Sharing Credit in determining 2015 target revenues and the 2015 RBA rate adjustment. If Maui Electric is required to revert to the old allocation methodology retroactive to January 1, 2014, this would result in higher 2014 O&M expense and lower 2014 average rate base. Maui Electric estimates the impact to be a reduction in its Earnings Sharing Revenue Credits (based on 2014 ROE) of approximately \$320 thousand.⁶⁴

5. Bonus Depreciation

In CA-IR-12, the Consumer Advocate questions whether adjustments to target revenue should have been proposed to account for bonus depreciation in 2014.

On December 19, 2014, 50% bonus depreciation was enacted to apply to qualifying assets placed into service between January 1, 2014 and December 31, 2014.⁶⁵ No adjustments to actual 2014 target revenues (which would require an adjustment to the amounts collected under existing tariffs) have been proposed to account for bonus depreciation in 2014. The enactment of bonus depreciation did not warrant an adjustment to actual 2014 target revenues because bonus depreciation was enacted after all federal estimated tax payments for the 2014 tax year were paid, and the Companies did not get the benefit of the change in law in 2014.⁶⁶

The Companies are required to pay estimated federal income taxes based on the law currently in effect and payments are due in four installments on the 15th of April, June, September and December. The law in effect through December 15, 2014 did not include a provision for bonus depreciation and therefore the Companies were required to make payments on that basis. Consequently, in complying with federal law, the Companies did not realize any deferred tax benefits associated with bonus depreciation at any time in 2014.⁶⁷

Upon the enactment of bonus depreciation on December 19, 2014, the Companies were required to provide for the ADIT associated with the estimated bonus depreciation on qualified assets placed into service in 2014 for financial accounting purposes. However, the cash benefit is not realized until either a refund of 2014 estimated taxes is received or 2015 estimated taxes are reduced by the overpayment resulting from the additional bonus depreciation deductions, both of which would take place in 2015.⁶⁸

⁶⁴ Response to PUC-IR-1.g. of \$240k has been revised based on revised expense and rate base impacts provided in CA-IR-1.

⁶⁵ Response to CA-IR-12.a. See response to CA-IR-12.b for the impact.

⁶⁶ See response to CA-IR-12.c.

⁶⁷ Id.

⁶⁸ Id.

Thus, it is reasonable to maintain the 2014 target revenues calculated in 2014 without an adjustment to rate base RAM for the ADIT associated with bonus depreciation that was enacted after estimated payments were made in 2014 since the Companies received no associated tax benefits in 2014. This end-of-year enactment of the bonus depreciation provision was tantamount to no enactment at all since the Companies' actions were consistent with the current law in effect through December 19, 2014, four days after the last federal estimated income tax payment was due. To include the effects of ADIT related to 2014 bonus depreciation to the 2014 actual target revenues would penalize the Companies for complying with the current tax law.⁶⁹

Note that the ADIT associated with 2014 bonus depreciation is reflected in determining the RAM for 2015. The ADIT associated with 2014 bonus depreciation is included in the Companies' actual adjusted recorded December 31, 2014 balances for determining adjusted 2014 target revenues in the 2015 RAM cap calculation, and for determining beginning of 2015 rate base under the rate base RAM determination under the "existing tariff", reflecting a full year's benefit for 2014 bonus depreciation in 2015 when it is actually realized.⁷⁰

In their revised decoupling filings, the Companies have again assumed currently effective tax law under which bonus depreciation expired at December of 2014.⁷¹

All Companies are required to make estimated tax payments based on current law. As long as these payments are required, the Companies will not receive any tax deferral benefits associated with the ADIT on bonus depreciation that might be enacted for 2015. Congress must pass a bonus depreciation bill and the President must sign such bill into law before the Companies can make adjustments to their estimated payments, record the ADIT and realize the tax deferral benefits. The process was uncertain last year and we can anticipate a similar situation for 2015. To date, Congress has not dealt with any extensions of bonus depreciation and therefore, 2015 bonus depreciation has not been assumed to be effective until a provision is enacted into law.⁷²

As a result of Order No. 32735, the Companies are now subject to a RAM Cap as defined in Order No. 32735. Because the 2015 RAM Cap is determined based on an escalation of 2014 adjusted target revenues, 2015 ADIT projections (and any adjustments for bonus depreciation that might be enacted for 2015) would have no impact on the determination of the 2015 RAM Cap. Therefore, an adjustment to target revenues would only be made if a benefit is received based upon bonus depreciation being enacted and the total Adjusted RAM Revenue Adjustment determined based on the "existing tariff" is less than the RAM Cap.⁷³

⁶⁹ Id.

⁷⁰ Id.

⁷¹ Response to CA-IR-12.f.

⁷² Id.

⁷³ Response to CA-IR-16.c.

Based on the Companies' updated filings on April 15, 2015, both Hawaiian Electric and Maui Electric are subject to the RAM Cap in 2015. Even with an adjustment to ADIT assuming bonus depreciation were enacted on January 1, 2015 (which is not the case), the Adjusted RAM Revenue Adjustment determined based on the "existing tariff" would be greater than the RAM Cap and no adjustment to target revenues would appear to be warranted.

In effect, for Hawaiian Electric and Maui Electric, the impact of any possible 2015 bonus depreciation on the 2015 ADIT becomes irrelevant since the 2015 ADIT balances have no bearing on the allowed 2015 RAM revenue adjustment.⁷⁴

To reiterate, for the 2015 RAM, the December 31, 2014 ADIT balance was trued-up to incorporate the impacts of bonus depreciation enacted for 2014, and was used to derive the 2014 Adjusted Rate Base RAM in the 2014 target revenue base for determining the 2015 RAM cap and for the Rate Base RAM under the "existing tariff". Therefore, the effects of the bonus depreciation enacted for 2014 are fully reflected in the RAM determination in the revised decoupling filings filed on April 15, 2015 for all three utilities.⁷⁵

6. Conclusion

If the Companies are directed to make the adjustments above, the impacts on the 2015 RAM would be substantial as shown in the table below. These impacts are not additive. However, if the Companies were directed to make all of the adjustments, the sum of the adjustments below would approximate the total impact.

	Incremental 14/15/15 RAM (\$ million)	Use Actual 2014 Depreciation (\$ million)	Apply 10% Reduction on 2014 RB RAM Base (\$ million)	Use Actual GDPPI Escalator (\$ million)	Remove ED/PS On-Costs from 2015 RAM (\$ million)	Annual Impact of 2015 Bonus Depreciation (\$ million)
Hawaiian Electric	20.3	(9.0)	(1.8)	0.9	(0.4)	(0.0)
Maui Electric	3.4	(1.3)	(0.3)	0.2	(0.1)	(0.0)
Hawai'i Electric Light	2.4	(0.6)	(0.0) ⁷⁶	0.0 ⁷⁶	0.0	(0.4)
Total Companies	\$26.1	\$(10.9)	\$(2.1)	\$1.1	\$(0.5)	\$(0.4)

⁷⁴ Id.

⁷⁵ Response to CA-IR-12.g.

⁷⁶ If multiple adjustments are ordered, the RAM Cap for Hawai'i Electric Light would be triggered and the impact would be a reduction greater than zero.

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Further, if the Companies are required to revert to the old allocation methodology retroactive to January 1, 2014 for ED and PS clearing charges, then the Companies would have to reflect \$10 million in additional expense in 2015 (for 2014 reclassified expenses) for financial reporting purposes. Cumulatively, the adjustments above and this charge to expense would virtually wipe out the incremental RAM for the three Companies in 2015.

Based on the reasons and justifications provided in the sections above, the Companies respectfully request the Commission to approve Transmittal Nos. 15-03, 15-04 and 15-05, as amended on April 15, 2015, except that the Companies are willing to make an adjustment to reduce the RAM Cap by removing the application of the GDPPI on the 2015 Depreciation and Amortization RAM expense.

Very truly yours,



Joseph P. Viola
Vice President
Regulatory Affairs

Attachment

cc: Division of Consumer Advocacy

Hawaiian Electric Companies

	Hawaiian Electric ¹ 2011	Hawaiian Electric ² 2014	Hawaiian Electric 2014-2011	Maui Electric ³ 2012	Maui Electric ⁴ 2015	Maui Electric 2015-2012	Hawai'i Electric Light ⁵ 2010	Hawai'i Electric Light ⁶ 2013	Hawai'i Electric Light 2013-2010
Production	91,823	86,432	(5,391)	27,456	27,724	268	19,696	21,552	1,856
Transmission	15,995	14,656	(1,339)	2,774	3,756	982	2,398	3,121	723
Distribution	41,545	41,991	446	9,743	9,539	(204)	7,986	11,492	3,506
Customer Accounts	14,611	22,880	8,269	4,683	6,502	1,819	3,732	5,747	2,015
Allowance for Uncoll	1,463	2,118	655	301	400	99	749	505	(244)
Customer Service	6,587	20,680	14,093	1,180	3,428	2,248	1,407	2,045	638
A&G	86,378	102,241	15,863	15,241	17,403	2,162	15,977	20,953	4,976
Austerity Adjustment	-	-	-	-	-	-	(365)	-	365
	258,402	290,998	32,596	61,378	68,752	7,374	51,580	65,415	13,835

¹ Decision and Order No. 30505, Docket No. 2010-0080, Exhibit A, page 1

² Hawaiian Electric Company, Inc. 2014 Test Year Rate Case, filed June 27, 2014, HECO-2902, page 1

³ MECO Revised Results of Operations, Tariff Sheets and Refund Plan, filed June 17, 2013, Docket No. 2011-0092, Exhibit 1A, page 1.

⁴ Maui Electric 2015 Test Year Rate Case, filed December 30, 2014, Docket No. 2014-0318, MECO-2001, page 1

⁵ Order No. 30301, Docket No. 2009-0164, Exhibit A, page 1

⁶ HELCO-2101, Docket No. 2012-0099, page 1