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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of HAWAIIAN ELECTRIC COMPANY, INC. For approval to modify the RBA Rate Adjustment in its Revenue Balancing Account Provision Tariff and approval of the Measured Performance and Calculation of the PIM Financial Incentives and Performance Incentive Adjustment.	Transmittal Nos. 19-01 (Decoupling) Effective Date: June 1, 2019
In the Matter of the Application of HAWAI`I ELECTRIC LIGHT COMPANY, INC. For approval to modify the RBA Rate Adjustment in its Revenue Balancing Account Provision Tariff and approval of the Measured Performance and Calculation of the PIM Financial Incentives and Performance Incentive Adjustment.	Transmittal Nos. 19-02 (Decoupling) Effective Date: June 1, 2019
In the Matter of the Application of MAUI ELECTRIC COMPANY, LIMITED For approval to modify the RBA Rate Adjustment in its Revenue Balancing Account Provision Tariff and approval of the Measured Performance and Calculation of the PIM Financial Incentives and Performance Incentive Adjustment.	Transmittal Nos. 19-03 (Decoupling) Effective Date: June 1, 2019

DIVISION OF CONSUMER ADVOCACY'S
STATEMENT OF POSITION

Pursuant to the Hawaii Public Utilities Commission's ("Commission's") Rules of Practice and Procedure, Hawaii Administrative Rules ("HAR") §§ 16-60-61 and 16-60-62, and various decisions, orders, and rulings of the Commission relevant to the annual decoupling tariff transmittals,[1] the Division of Consumer Advocacy ("Consumer Advocate") offers these comments and recommendations for the Commission's consideration based upon the review that the Consumer Advocate has been able to conduct thus far of the decoupling rate adjustment filings submitted by Hawaiian Electric Company, Inc. ("Hawaiian Electric"), Hawaii Electric Light Company, Inc. ("Hawaii Electric Light"), and Maui Electric Company, Limited ("Maui Electric") (collectively, the "Hawaiian Electric Companies" or "Companies") on March 29, 2019. As in recent prior years, the Consumer Advocate is again submitting its Statement of Position on a consolidated basis for all three utilities.

The Hawaiian Electric Companies' transmittals this year contain multiple new elements, beyond the traditional Revenue Balancing Account ("RBA") and Rate Adjustment Mechanism ("RAM") elements that were addressed in prior years, including:

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1 See, for example, Final Decision And Order And Dissenting Opinion of Leslie H. Kondo, Commissioner, Docket No. 2008-0274 (filed on Aug. 31, 2010) ("2008-0274 Decision and Order"); Decision and Order No. 31908, Docket No. 2013-0141 (filed on Feb. 7, 2014); Order No. 32735, Docket No. 2013-0141 (filed on Mar. 31, 2015); Order No. 34514, Docket No. 2013-0141 (filed on Apr. 27, 2017); Order No. 32866, Tariff Transmittal Nos. 15-03 (Hawaiian Electric), 15-04 (Hawaii Electric Light), and 15-05 (Maui Electric) (Consolidated) (filed on May 28, 2015); Order No. 34503, Tariff Transmittal Nos. 17-02 (Hawaiian Electric), 17-03 (Hawaii Electric Light), and 17-04 (Maui Electric) (Decoupling) (Consolidated) (filed on Apr. 19, 2017); Order No. 35488, Tariff Transmittal Nos. 18-01 (Hawaiian Electric), 18-02 (Hawaii Electric Light), and 18-03 (Maui Electric) (Decoupling) (Consolidated) (filed on May 24, 2018).

- Performance Incentive Mechanisms ("PIMs") were effective for the first time in calendar 2018, for which calculated incentives and penalties have been included in this year's transmittals.[2]
- Commission-approved cost recovery through the RBA for On Bill Financing ("OBF") program implementation expenses are also included in this year's transmittals.[3]
- Major Project Interim Recovery ("MPIR") additions to Hawaiian Electric's target revenues and adjustments to the RBA balance for the Schofield Generation Station ("SGS").[4]
- Joint Pole revenue credits reduce the calculated RAM for each utility while the Rate Base RAM includes a return on the assets transferred from Hawaiian Telcom and the Depreciation & Amortization RAM includes the related depreciation expense.[5]
- Two alternative treatments for recovery of the West Loch Photovoltaic Project ("West Loch"). The first alternative proposes to recognize West Loch as a Major Project addition to plant in the 2019 RAM filing.

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2 PIMs were initially approved in Order No. 34514 in Docket No. 2013-0141, with PIM tariff sheets made effective pursuant to Order Nos. 35075 and 35165 to address System Average Interruption Duration Index ("SAIDI"), System Average Interruption Frequency ("SAIFI") and Call Center Service Levels. Additional PIMs for procurement of renewable generation were approved by the Commission in Order No. 35405 in Docket No. 2017-0352.

3 On Bill Financing cost recovery was approved in two installments within Decision and Order No. 36212 in Docket No. 2017-0102.

4 SGS cost recovery through MPIR was approved in Order No. 35556 in Docket No. 2017-0213.

5 Joint Pole Revenues result from Commission approval of the Asset Transfer, Pole Licensing and Amended Joint Pole Agreements addressed in Decision and Order No. 35768 in Docket No. 2018-0075.

The second excludes such treatment in recognition that Hawaiian Electric is currently seeking recovery of the West Loch costs through the MPIR adjustment mechanism in Docket No. 2016-0342.

- Both the Hawaiian Electric and Hawaii Electric Light proposed RBA adjustments are impacted by small refunds ordered in recent rate cases and the Maui Electric RBA adjustment includes a PUC-Ordered Major Capital Project Credit for substation land that was not placed in service as planned.[6]

This year, the Hawaiian Electric Companies seek to implement RBA Rate Adjustments to recover the following amounts within the June 1, 2019, through May 31, 2020, recovery period:[7]

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6 See Schedule A for each utility and Schedule I for the calculated Major Capital Project Credit for Maui Electric.

7 The RBA tariff states, "The recovery through the RBA Rate Adjustment of a RAM Revenue Adjustment calculated for a calendar year that is also a rate case test year shall terminate on the effective date of tariff rates that implement a Commission approved base revenue level authorized in the Company's test year rate case." Similarly, the RAM tariff states, "The RAM Revenue Adjustment established for a RAM Period calendar year that is also a rate case test year shall terminate on the effective date of tariff rates that are implemented pursuant to a Commission Decision & Order for that test year, unless otherwise specified below." Therefore, the amounts to be recovered by Hawaii Electric Light for the RAM component of the RBA rate is expected to be modified by rate orders to be issued later this year in Docket No. 2018-0368 (as of the date this Statement of Position was finalized, the Commission had not yet scheduled the interim decision and order in this docket). The RAM component of the RBA rate were set for Maui Electric, Hawaii Electric Light and Hawaiian Electric by rate orders issued in prior rate case proceedings, Docket Nos. 2017-0150 (Interim Decision and Order No. 35631 and Decision and Order No. 36219), 2015-0170 (Interim Decision and Order No. 34766 and Order No. 35419) and 2016-0328 (Interim Decision and Order No. 35100 and Order No. 35335), respectively.

HAWAIIAN ELECTRIC COMPANIES
TRANSMITTALS 19-01, 19-02, 19-03 (DECOUPLING)
INCREMENTAL REVENUE IMPACTS

Line No.	Description	INCREMENTAL CHANGE HECO (W/Out West Loch)	HECO (With West Loch)	HELCO	MECO
	(a)	(c)	(b)	(d)	(e)
1	RECONCILIATION OF RBA BALANCE:				
2	RBA Prior calendar year-end balance	$ (13,018,397)	$ (13,018,397)	$ (2,101,607)	$ 592,940
2a	OBF Program Implementation Cost Recover	$ 843,511	$ 843,511	$ 236,819	$ 198,482
3	Revenue for RBA Balance	$ (12,174,886)	$ (12,174,886)	$ (1,864,789)	$ 791,422
4	RATE ADJUSTMENT MECHANISM "RAM" AMOUNT:				
5	Joint Pole - RAM Effect	$ 1,015,490	$ 1,015,490	$ 1,443,701	$ (73,838)
6	Remaining RAM Revenue Adjustment	$ 12,213,236	$ 13,102,288	$ 2,092,421	$ 3,425,726
7	Total RAM Revenue Adjustment	$ 13,228,726	$ 14,117,778	$ 3,536,122	$ 3,351,888
8	EARNINGS SHARING REVENUE CREDITS	$ -	$ -	$ -	$ -
9	PERFORMANCE INCENT. MECH. REWARD (PENALTY)	$ 53,998	$ 53,998	$ (15,435)	$ (394,917)
10	TEST YEAR RATE CASE FINAL D&O REFUND:	$ (48,000)	$ (48,000)	$ (74,000)	$ -
11	PUC-ORDEREDCAPITAL PROJECT CREDITS	$ -	$ -	$ -	$ (10,353)
12	TOTAL RBA REVENUE ADJUSTMENT	$ 1,059,839	$ 1,948,891	$ 1,581,898	$ 3,738,040
		Note A	Note B	Note C	Note D

Note A Source: Exhibit 7, CA-SOP-WP-7.1, page 2.
Note B Source: Exhibit 7, CA-SOP-WP-7.1, page 3.
Note C Source: Exhibit 7, CA-SOP-WP-7.1, page 4.
Note D Source: Exhibit 7, CA-SOP-WP-7.1, page 5.

Referring to Schedule A1 of the 2019 filed tariff transmittals, the RAM Cap served to constrain the Companies' filed tariff transmittal RAM increases that would otherwise be implemented for Hawaiian Electric only if West Loch costs are included as a Major Project (rather than via MPIR) and for Hawaii Electric Light, reducing the RAM amounts by about $1.7 million and $479 thousand, respectively.[8] In contrast, the traditionally

8 At Hawaiian Electric Schedule A1, the traditionally determined cumulative RAM was reduced with West Loch from $29,643,687 to the RAM Cap amount of $27,945,687. Without West Loch included as a Major Project, Hawaiian Electric Schedule A1 is not impacted by the RAM Cap. For Hawaii Electric Light at Schedule A1, the traditionally determined cumulative RAM was reduced from $10,592,087 to the RAM Cap amount of $10,112,835.

calculated RAM increase for Maui Electric was below the calculated RAM Cap, such that no Cap constraint was imposed in Maui Electric's tariff transmittal.[9]

I. BACKGROUND.

The extensive history of RBA and RAM rate adjustment decoupling procedures and the newly added components for MPIR, PIMs, OBF recoveries and Joint Pole revenue offsets is recited within the Hawaiian Electric Companies' transmittals and will not be repeated here.[10] The Consumer Advocate's Statement of Position will instead focus upon exceptions and adjustments that should be applied by the Commission, based upon the Consumer Advocate's review of the Companies' transmittals.

Two specific adjustments are proposed by the Consumer Advocate to the RAM increases calculated within the Hawaiian Electric Companies' transmittals.[11] The first adjustment conditionally recognizes the commencement of amortization of the Excess Accumulated Deferred Income Tax ("Excess ADIT"). This specific adjustment is associated with the protected Excess ADIT reserve balances whose amortization has not previously commenced. The Companies' tariff transmittals have not proposed or quantified the RAM reduction impact of this amortization.

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9 At Maui Electric Schedule A1, lines 1 through 5 summarizes the traditionally calculated RAM of $3,351,888, which is below the RAM Cap of $4,176,766 summarized at lines 6 through 8.

10 *See*, for example, Hawaiian Electric Transmittal 19-01 at pages 3-7, 10-16, and 23-24.

11 Due to Hawaiian Electric's tariff transmittal proposing two alternative treatments for recovery of West Loch (i.e., inclusion of West Loch as a Major Project addition to plant in the 2019 vs. recovering West Loch costs through the MPIR mechanism), the Consumer Advocate has also presented its recommendations with and without including West Loch in rate base.

The Consumer Advocate's second adjustment revises the amount of Joint Pole Revenues the Hawaiian Electric Companies have proposed to recognize on Schedule A1 as a reduction to the traditional RAM Revenue Adjustment. These adjustments are described in detail in the RAM Discussion section below.

Two RBA issues are raised in the Hawaiian Electric Companies' tariff transmittals submitted in 2019. First, the Hawaiian Electric Companies have proposed to modify the RBA interest rate from a net of tax to a gross of tax calculation. The Consumer Advocate proposes to continue calculating RBA interest on a net of tax basis for all three Companies. Second, Hawaiian Electric Light proposes to reduce the RBA interest rate from 3.25% to 1.50% on or about the effective date of the final rates in Docket No. 2015-0170. The Consumer Advocate instead recommends that the reduced RBA interest rate should instead be recognized on or about the effective date of the interim decision and order in that docket. The Consumer Advocate addresses these changes in the RBA Discussion section that follows.

Finally, in quantifying the Total RBA Revenue Adjustment on Schedule A, Hawaiian Electric proposes modifications to exclude certain outages and interruptions from its service quality (i.e., SAIDI and SAIFI) measured performance under the Performance Incentive Mechanisms. As more fully addressed hereinbelow, the Consumer Advocate disagrees with this recommendation.

Administrative issues are also addressed in the Consumer Advocate's SOP, including the revised treatment of Contributions in Aid of Construction ("CIAC"), procedural schedule challenges arising from the expanded scope of issues addressed in annual decoupling filings and the Companies' proposed revisions to tariffs.

II. DISCUSSION.

The Hawaiian Electric Companies' calculation of proposed RBA Rate Adjustments in 2019 again includes two primary elements, the recovery of December 31, 2018 RBA balances and the RAM calculated (or capped) increases to such target revenues, as well as the newly added PIM incentives, Joint Pole revenue offsets and On-bill implementation cost recoveries referenced above. RBA recovery rate increases are needed for the RBA recovery component of the overall RBA Rates for all three utilities, because recovery of last year's (December 2017) recorded RBA balances was less than new RBA deferrals representing under-recovery of targeted levels during 2018. As of December 31, 2018, the accumulated RBA balance to be recovered represents a cumulative revenue shortfall of $37.4 million for Hawaiian Electric, $1.7 million for Hawaii Electric Light, and $6.1 million for Maui Electric Company.[12]

With respect to the RAM element of the RBA rate adjustment, for 2019, the Hawaiian Electric Companies have proposed incremental RAM increases of $13.3 million (without West Loch) or $14.1 million (with West Loch) for Hawaiian Electric, $3.5 million for Hawaii Electric Light, and $3.4 million for Maui Electric, driven by calculated increases in the O&M RAM, the Rate Base RAM – Return on Investment and the Depreciation & Amortization RAM Expense for each company, with RAM Cap limitations for Hawaiian Electric (with West Loch) and Hawaii Electric Light.

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12 See Schedule A, at line 1, prior to application of the Revenue Tax Factor at line 2.

A. REVIEW OF THE REVENUE BALANCING ACCOUNT.

The revenue balancing account is maintained to accumulate the differences that occur each month between: 1) the target level of base revenues that the utility has been authorized to charge, and 2) the comparable amount of monthly recorded adjusted revenues that were actually earned and charged to customers. The revenue balancing process is relatively simple to understand in concept and has been succinctly defined within the RBA Tariff.[13]

Unfortunately, considerable complexity is involved in isolating the amount of recorded adjusted base revenue that was actually earned from serving customers each month, so as to exclude each element of non-base revenues and to properly restate for billing adjustments and error corrections impacting current and prior periods. Contributing to this complexity is the necessary inclusion of monthly accounting accruals and reversals for estimated unbilled revenues that are recorded in addition to all of the actual billed-basis revenue transactions and adjustments, because of the requirement within Generally Accepted Accounting Principles for each of the Hawaiian Electric Companies to report financial results on an accrual-basis of accounting.

13 According to the Revenue Balancing Account ("RBA") Provision tariff, "The purpose of the Revenue Balancing Account ("RBA") is to record: 1) the difference between the Hawaiian Electric Company's target revenue and recorded adjusted revenue, and 2) monthly interest applied to the simple average of the beginning and ending month balances in the RBA." In paragraph C, a single sentence defines recorded adjusted revenues, stating, "The recorded adjusted revenue is defined to include the electric sales revenue from authorized base rates, plus revenue from any authorized interim rate increase, plus revenue from any RBA rate adjustment, but excluding revenue for fuel and purchased power expenses, IRP/DSM, any Commission Ordered one-time rate refunds or credits or other surcharges, and adjusted to remove amounts for applicable revenue taxes." (see, e.g., Revised Sheet No. 92 for Hawaiian Electric. Identical language can be found on Hawaii Electric Light's and Maui Electric's tariffs).

A high-level summary of the many complex elements of this monthly calculation of recorded adjusted revenues can be observed within Schedule B2 of the decoupling template calculation that is submitted by each of the Hawaiian Electric Companies in support of the proposed annual RBA rate adjustment.

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

The Consumer Advocate is continuing to review the RBA calculations within the Companies' decoupling filings, the monthly informational packets and responses to informal information requests, and has at this time identified two needed adjustments to the December 31, 2018 recorded balances as submitted by the Hawaiian Electric Companies, as more fully described below.

1. Accumulated Deferred Income Taxes ("ADIT") Related to RBA Revenue (Transmittals 19-01, 19-02 and 19-03).

The Hawaiian Electric Companies have modified the format and sequence of calculations used within Schedule B to calculate interest on the RBA balance in each month of 2018. The proposed changes are described in the Companies' filed Transmittals at page 9:

> In 2018, the Company revised its interest calculation based on the statutory language of Internal Revenue Code §451(b) retroactive to January 2018, when an accumulated deferred income tax ("ADIT") adjustment arose as a result of the 2017 Tax Cuts & Jobs Act. The interest rate applied to net of ADIT RBA balances continued to be the approved short-term interest rate according to each respective Company's final rate orders.

The proposed change in interest calculations can be observed at template Schedule B, where instead of applying interest to "Tax-effected Balances Subject to Interest" as in prior years, the Companies have now added new columns to Schedule B to separately state "RBA Balance Before ADIT", "ADIT Related to RBA Revenues" and then, "Net Ending Balance" amounts that are used to calculate an "Average Balance Subject to Interest" column. Note 2 on Schedule B quotes from Internal Revenue Code Section 451(b) to conclude that the Companies' accrued RBA revenues not yet "received in rates" may now be immediately subject to income taxes. More specifically, Note 2 describes changes within the 2017 Tax Cuts and Jobs Act ("Tax Act") that may supersede RBA tax accounting treatments that were previously approved by the IRS and that allowed payment of income taxes to be deferred on RBA balances not yet included within rates, in compliance with the Commission's Order No. 31908 in Docket No. 2013-0141.

Under the newly proposed calculations, ADIT Related to RBA Revenues within the Companies' revised Schedule B would be fixed at the amounts recorded at December 31, 2017, and then gradually be amortized toward zero over a four-year period ending in 2021. According to Note 2, "[t]his change imposed by IRC §451(b) should allow for the deferred RBA income (on which the RBA ADIT balance at December 31, 2017 is based) to be amortized into taxable income over the next 4 years (straight line basis) with the effect of reducing the tax adjustment balance down to zero by the end of 2021." The effect of the proposed change is to modestly increase interest earned by the utilities and paid by ratepayers on the RBA balance in 2018. However, by 2021 all of the favorable impact of Order No. 31908 would be eliminated under the Companies' interpretation of changing tax laws.

Information Requests have been submitted informally inquiring into the status of this income recognition tax issue within the decoupling transmittals, as well as in the pending Hawaii Electric Light rate case. Copies of the responses to the Consumer Advocate's informal Information Requests CA-IR-19, 26,[14] 32 and 43 are included in Exhibit 6 to this Statement of Position. In response to informal CA-IR-26, the Companies stated, "It should be noted that it has recently come to our attention that there may be a possibility that the method of accounting provided in IRC §451(b) may not apply to utility services income", but that response cites to a "special method of accounting provided elsewhere in the Code" and ultimately admits, "...it is still not clear whether the applicable income under §451(h) includes RBA income and to what extent the two provisions overlap." The response to informal CA-IR-32 states, "The Companies are keeping abreast of further guidance on IRC §451(b) through informal discussions with its tax advisors and Edison Electric Institute and review of online research services. The only documentation that addressed this issue was in the recently published 'Bluebook' issued by the Joint Committee on Taxation in December 2018, previously referred to in the response to Informal IR-26." Further discussion of these uncertainties appears in responses to Informal CA-IR-32 and in Informal CA-IR-43, where the Companies conclude, "If clarification is issued in the Companies' favor, the RBA mechanism would be the appropriate vehicle for adjusting revenues to reflect the impact of the continued deferral of RBA revenues."

14 Due to the voluminous nature of the attachments to the Companies' responses to CA-IR-26, hard copies of those attachments are not being provided but are included in the electronic copies that will be transmitted.

The Consumer Advocate agrees that some uncertainty is created by tax law changes that may ultimately impact the ability to continue deferring income taxes on RBA revenues that are accrued on the utilities' books. However, this uncertainty need not be immediately translated into higher RBA charges to customers. There is no need to assume a negative income tax outcome and prematurely adjust upward the RBA balances entitled to earn interest. Instead, clarifying rulings from the IRS should precede changes to the RBA interest calculations within Schedule B. The utilities should be encouraged to preserve the deferred income tax treatment afforded accrued RBA revenues in recent years and only adjust RBA interest calculations when a final determination has been made that tax deferral is no longer possible.

The Consumer Advocate's proposed regulatory treatment of issues involving income tax uncertainty has been consistently employed historically with the Companies. In settlement of Hawaiian Electric's 2011 test year rate case, Docket No 2010-0080, Maui Electric's 2012 test year rate case, Docket No. 2011-0092, and Hawaii Electric Light's 2016 test year rate case in Docket No. 2015-0170, it was agreed that the Accumulated Deferred Income Tax ("ADIT") balances arising from the utilities' Uncertain Tax Positions ("UTP"), taken within filed tax returns would be reinstated and would continue to reduce rate base. Then, if the uncertain tax issues were later resolved with finality upon audit by the Internal Revenue Service in a manner adverse to the Hawaiian Electric Companies, a regulatory asset could be recorded to recover from ratepayers the resulting federal tax liability and applicable interest. This approach is described by Hawaii Electric Light's income tax witness in its pending rate case, Docket

No. 2018-0368, and is adopted by Hawaii Electric Light in that docket.[15] Thus, not only is the proposed change not in the interest of customers, the Companies' proposed change in Schedule B is inconsistent with past practice and should be rejected.

Adjustment No. 1 is proposed by the Consumer Advocate to revise Schedule B, in order to continue calculating interest on the RBA balance on a net-of-tax basis. To aid in comparability with the Companies' filed Transmittal calculations, the Consumer Advocate has retained the columns and presentation format of the Companies' revised Schedule B that separately itemizes the monthly amounts of "ADIT Related to RBA Revenues". However, in the Consumer Advocate's revised calculations, these ADIT balances continue to fluctuate in proportion to the monthly calculated RBA balance based upon statutory income tax rates, rather than ratably declining toward zero over four years, as proposed by the Companies.

The Consumer Advocate recommends that any final determination by the Internal Revenue Service that eliminates the deferral of income taxes on RBA balances should be addressed in future RBA transmittals, by an adjustment that would prospectively modify the RBA balance with applicable interest, in a manner consistent with the regulatory treatment of other UTP matters, as described above.

2. HELCO RBA Interest Rate Update (Transmittal 19-02).

The second RBA adjustment proposed by the Consumer Advocate deals with the timing of updating of the short term debt interest rate applicable to the RBA balance of Hawaii Electric Light. Transmittal 19-02 at Schedule B applies a 3.25% annual interest

15 Docket No. 2018-0368, HELCO T-18, at 41-45.

rate through June of 2018 and then an updated 1.50% interest rate within the Company's calculations for July through December 2018. The Company's explanation for this treatment appears at Note 4 on Schedule B: "On June 29, 2018, the Commission issued the Final Decision & Order No. 35559 for the Hawaii Electric Light 2016 test year rate case (Dkt No. 2015-0170). As the pro-rated RBA interest of 1 day (06/30/18) in June is immaterial, Hawaii Electric Light will use the short term debt rate of 3.25% to calculate the RBA interest for June. Beginning July 1, 2018, Hawaii Electric Light will use the approved short term debt rate of 1.50% to calculate the RBA interest as approved by the Commission in Docket No. 2015-0170."

The Consumer Advocate recommends that the reduced cost rate for short term debt that was determined appropriate in Hawaii Electric Light's 2016 test year be recognized <u>at the time new interim rates were effective in that docket</u>, starting September 1, 2017, rather than July of 2018, when final rates were later implemented.[16] The RBA tariff provides for interest on the average RBA balance with the following language, "The Interest Rate shall be the short term debt rate as established in deriving the consolidated cost of capital in the Company's last full rate case."[17] Docket No. 2015-0170 was Hawaii Electric Light's last "full rate case" and there was no dispute between the Consumer Advocate and the utility regarding the short term debt cost rate

16 Order No. 34772 dated August 29, 2017 approved Hawaii Electric Light's interim tariff sheets to be effective on August 31, 2017.

17 See Transmittal 19-01, Attachment 1 at Revised Sheet No. 92B under C: BALANCING ACCOUNT ENTRIES.

in that docket.[18] As a result, the updated 1.50 percent cost rate was used to determine both the interim and final rates approved by the Commission for use by Hawaii Electric Light. There is no reason to continue to charge customers an obsolete and overstated cost rate for short term debt well into 2018, when Hawaii Electric Light's rates were revised in the fall of 2017 to reflect lower debt cost rates and all other updated financial inputs used within the Company's 2016 test year.

Adjustment No. 1A is proposed by the Consumer Advocate to revise Schedule B for Hawaii Electric Light, to reflect the updated and lower 1.5 percent short term debt cost rate that was approved in setting rates effective September 1, 2017. Schedule B, column (k) has been modified to apply the 1.5 percent cost rate to the average RBA balance in all months of 2018. Additionally, an adjustment to prior year RBA interest from September 1, 2017, through December 31, 2017, is inserted at line 2 to reduce the beginning of 2018 RBA balance by $10,606 for this prior period interest restatement that should have been captured last year.

B. REVIEW OF RAM – CONSUMER ADVOCATE PROPOSED ADJUSTMENTS.

The Hawaiian Electric Companies' proposed RAM Revenue Adjustment amount is comprised of the O&M RAM, Rate Base RAM – Return on Investment, and the Depreciation and Amortization RAM Expense, as summarized on Schedules A and A1 in the Hawaiian Electric Companies' tariff transmittals. As noted previously, the overall RAM adjustment each year is limited by the RAM Cap approved by the Commission in

18 See Docket No. 2015-0170, Parties' Stipulated Settlement Letter dated 7/11/2017, at Exhibit 1, page 84, where Hawaii Electric Light's "Cost" of Short-Term Debt was agreed to be 1.50% for ratemaking purposes.

Order No. 32735, which serves to restrain overall RAM increases to the level of general inflation, as measured by forecasted GDPPI.

Based upon the Consumer Advocate's review to date, there appear to be only two exceptions to the Hawaiian Electric Companies' traditional RAM calculations that require Commission attention, as more fully described below.

1. Excess Accumulated Deferred Tax Amortization (Transmittals 19-01, 19-02 and 19-03).

The Hawaiian Electric Companies' Depreciation and Amortization RAM Adjustments, at Schedule E, contains a line item recognizing the annual amortization expense credit for "excess" Accumulated Deferred Income Taxes ("ADIT"), arising from the reduction in federal business income tax rates from 35 percent to 21 percent as of January 1, 2018, pursuant to the Tax Act.[19] This amortization expense credit is supported within Schedule D5, which was a newly added schedule in the Companies' 2018 decoupling transmittals used to quantify excess ADIT amortization issues created by the Tax Act. When business income tax rates were reduced within the Tax Act, the deferred income tax amounts that were previously collected from ratepayers and recorded within the utilities' ADIT accounts at the historically higher 35 percent federal income tax rate were revalued, to recognize that when the underlying book/tax timing differences reverse in future tax years, the federal taxes payable at that time will be taxed at the reduced 21 percent rate.

[19] Hawaiian Electric Schedule E, line 87. Hawaii Electric Light Schedule E, line 91. Maui Electric Schedule E, line 195.

The resulting “excess” amounts of ADIT from this revaluation were reclassified as a regulatory liability at year-end 2017, to recognize the utilities’ obligation to return such previously collected amounts to ratepayers. A summary of the excess ADIT regulatory liability balance appears in Schedule D5 for each utility, with the average balance in columns (f) and (i) serving to reduce Rate Base (and the Rate Base RAM) on Schedule D1 at line 15, while the annual amortization credit in column (h) serves to reduce the Depreciation and Amortization RAM.

The largest category of excess ADIT caused by the Tax Act arises from tax depreciation accelerated method and life differences, in comparison to the straight-line “book” depreciation methods based upon generally longer useful plant lives. Schedule D5 identifies these excess ADIT amounts at line 2 with the caption “Plant 282 – protected” because of limitations imposed within the Tax Act that prohibit the rapid return of these excess ADIT amounts to ratepayers. Tax Code restrictions prescribe either an Average Rate Assumption Method (“ARAM”) or an alternative method for any utility taxpayers unable to calculate ARAM. For Hawaiian Electric, the “protected” excess ADIT regulatory liability amounts represent more than $223 million that is owed to ratepayers.[20] However, Schedule D5 reveals that the return of these excess amounts has not yet commenced, where the “Life” amortization period in column (f) is set at zero and no “Amortization” appears in column (g). The Consumer Advocate proposes an adjustment to the RAM calculations of each utility to commence amortization of the “protected” category of excess ADIT, using an amortization period of 40 years as a

20 For Hawaii Electric Light, nearly all of the excess ADIT regulatory liability on Schedule D5 is “protected” and for Maui Electric $49.1 million of the total $54.8 million falls within the “protected” category.

conservative estimate of annual amortization amounts that will comport with ARAM restrictions.

Excess ADIT amounts were quantified as of December 31, 2018, by the Hawaiian Electric Companies and reclassified into regulatory liability accounts at that time. Amortization of these amounts owed to ratepayers should have commenced starting in January of 2018. But, in the absence of rate case decisions effective at that time, the amortization of excess ADIT amounts did not commence until amortization periods were defined and interim rate adjustments capturing Tax Act benefits were implemented within the 2018 round of general rate cases. In the most recent round of rate cases, the 15-year and 5-year amortization period that appear in Schedule D5 for the "Plant 283-unprotected" and "Nonplant 283-unprotected" categories of Excess ADIT were agreed upon in stipulated settlements that were approved by the Commission and used to establish interim revenue requirements.

However, at that time of the prior rate cases, the Hawaiian Electric Companies claimed they were unable to accurately quantify an appropriate amortization period or amortization amount for the "protected" excess ADIT balance, so the commencement of such amortization was delayed to allow time for the completion of ARAM computations. As a result, ratepayers have received no amortization benefit from the largest "protected" category of excess ADIT they are owed, even though these amounts became regulatory liabilities for return to ratepayers as of January 1, 2018. When new RBA rates become effective in June of 2019, 17 months will have passed with the Hawaiian Electric Companies retaining all of the "protected" excess ADIT regulatory liability balances in the absence of amortization credits to ratepayers.

The Stipulated Settlement on Remaining Issues in Hawaiian Electric Docket No. 2016-0328 affirmatively addressed seven discrete Tax Act ratemaking issues and stated the following with respect to excess ADIT ratemaking treatment:

> 2. Interim rates shall also reflect the revenue requirement reduction impact of amortizing over a 15-year period the Company's Plant-related excess ADIT balances at December 31, 2017, that are not subject to Average Rate Assumption Method ("ARAM") normalization accounting restrictions. For those excess ADIT balances that are subject to ARAM normalization, ratemaking and financial accounting amortization will be delayed until more accurate quantification of such amounts can be determined in future rate cases.
>
> 3. Interim rates shall also reflect the revenue requirement reduction impact of amortizing over a 5-year period the Company's other excess ADIT balances at December 31, 2017, that are not Plant-related and therefore not subject to Average Rate Assumption Method ("ARAM") normalization accounting restrictions.
>
> . . . .
>
> 5. The Hawaiian Electric Companies will not record any amortization of excess ADIT regulatory liability balances until such amortization is affirmatively reflected within a Commission rate order. The amount of recorded amortization for financial accounting purposes in future periods will match the amounts recognized in PUC rate orders.
>
> 6. The Hawaiian Electric Companies will include all unamortized excess ADIT regulatory liability balances in rate base in future rate cases and RAM filings until such amounts are fully amortized, and incorporate the effects of the loss of bonus depreciation on ADIT in rate base in future rate cases and RAM filings. The unamortized excess ADIT regulatory liability balance will be an element of rate base subject to adjustment in the RAM filings.[21]

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[21] Docket No. 2016-0328, Parties' Stipulated Settlement on Remaining Issues, filed March 5, 2018. (Footnotes omitted.)

Matching settlement provisions were applied to resolve Tax Act ratemaking issues for Hawaii Electric Light and Maui Electric.[22] Pursuant to settlement provision number 2 in this list, as of March of 2018, the utilities were not able to accurately quantify annual amortization amounts that would comply with the ARAM restrictions, with an expectation that this accounting problem would be resolved in time for inclusion of such amortizations "in future rate cases."

More than a year later, the Hawaiian Electric Companies still claim to be unable to accurately quantify amortization periods or amounts using an ARAM method of accounting for the "protected" category of excess ADIT awaiting return to ratepayers. According to the Companies' response to informal CA-IR-37:

> The ARAM calculation and supporting documentation are not available at this time, due to certain errors identified in the PowerTax transfer and allocation of data in the ERP implementation process related to contributions in aid of construction ("CIAC") book tax differences. This fix requires assistance from the consultants at PowerTax. The Company has contacted the PowerTax representative and is currently discussing the fix needed and the time and expense required to remedy the situation. In addition, PowerTax has developed enhanced reports that should support the mechanics of the ARAM calculation in support of the ARAM amount. The Companies have downloaded the updates to enable the production of the enhanced reports, which will assist in the understanding and support of the ARAM computation. At this time, there is no timeline for all this work to be done, but it is the Company's expectation that the ARAM computation and supporting schedules will be completed within two to three months.

A complete copy of this response is included within Exhibit 6 to this Statement of Position. Similar concerns have been raised within the pending Hawaii Electric Light

22 *See* Maui Electric Company Docket No. 2017-0150, Parties' Stipulated Settlement Letter dated June 15, 2018, Exhibit 1, pages 85-87. *See also* Hawaii Electric Light Company Docket No. 2015-0170, Motion to Adjust Interim Increase filed March 27, 2018, and Memorandum in Support of Motion, at page 7.

rate case, Docket No. 2018-0368, where the Company filed testimony intending to update for excess ADIT amortization using ARAM by the end of 2018,[23] but has claimed in response to rate case information requests that "[t]he Company is in contact with the PowerTax representative and is discussing the fix needed and the time and expense required to remedy the situation."[24]

The Consumer Advocate recommends commencing amortization of the Companies' "protected" excess ADIT balances within Schedule D5, by inserting an assumed 40-year amortization period to calculate annual amortization credits for the "Plant-282-protected" category of regulatory liabilities on line 2. This estimate of an ARAM-compliant amortization period is conservative in relation to the composite overall book depreciation rate employed on Schedule E for all of the depreciable utility plant of each utility. For example, the composite 2.864% depreciation accrual rate applied to Hawaiian Electric's depreciable plant at Schedule E, line 61, implies a shorter average life of approximately 35 years.[25]

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23 Docket No. 2018-0368; HELCO T-18, page 22 states, "The Company is in the process of completing this computation, utilizing the deferred tax module within the PowerTax software and in conjunction with the ERP/EAM implementation project." Footnote 4 explains, "The Company anticipates completing this computation by the end of 2018, and will incorporate resulting changes at the next opportunity."

24 Docket No. 2018-0368; Hawaii Electric Light Company response to CA-IR-70 filed on March 15, 2019.

25 1 divided by 2.864 percent = 34.9 years. The Hawaii Electric Light composite depreciation rate used on Schedule E at line 64 at 3.306 percent and the Maui Electric composite depreciation rate on Schedule E at line 53 of 2.76 percent also imply that an assumed average life estimate of 40 years is conservatively long.

Other utilities have commenced regulatory amortization of their "protected" category of excess ADIT for the benefit of ratepayers, without precisely quantifying the ARAM amounts for each year. For example, in testimony on behalf of Indianapolis Power and Light Company in Indiana, the Director of US Tax Reporting for AES U.S. Services, LLC stated that, "[t]he Company is proposing an amortization period of 25 years as a proxy until the actual ARAM amortization is complete" and then to account for any differences that emerge the utility stated it is requesting that the Commission authorize the Company to defer as a regulatory asset or regulatory liability the difference between the estimate and the actual amount to avoid a normalization violation.[26]

In Idaho, Avista Corporation submitted its "Report on Impact of Federal Tax Code Revisions on Utility Costs and Ratemaking" in Case No. GNR-U-18-01 on March 28, 2018 including the statement, "For Plant-related excess deferred income tax, the Company will amortize the plant DFIT balances (Regulatory Liability of $106.4 million electric and $20.5 million natural gas, per Table 2 below) in accordance with the TCJA's Average Rate Assumption Method (ARAM). The Company estimates the ARAM for Avista results in an amortization period of approximately 36 years."[27]

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26 Revised Verified Direct Testimony of Frank J. Salatto; filed February 16, 2018, in Indiana Utility Regulatory Commission Cause No. 45029, at 15-16.

27 Avista Report on Impact of Federal Tax Code Revisions on Utility Costs and Ratemaking, filed March 28, 2018, in Idaho Public Utilities Commission Case No. GN R-U-18-01, at 4.

In Kansas, according to Staff witness Justin Grady's Direct Testimony, Kansas City Power & Light Company estimated the amortization period resulting from application of ARAM to its protected categories of excess ADIT in 2018 results in amortization over approximately 29.5 years. Copies of the referenced Indiana, Idaho and Kansas documents are included within Exhibit 5.[28]

While the Consumer Advocate's proposed 40 year amortization period for "protected" excess ADIT is believed to be conservative by these comparisons, it should be noted that any differences between ARAM amounts eventually quantified by the Hawaiian Electric Companies and the amortization included in setting rates would be self-correcting, through paragraph 5 of the Stipulated Settlement Agreement quoted above. The Companies will be able to true-up any future excess ADIT amortization differences between calculated annual ARAM and regulatory amortization levels through continuous regulatory asset accounting for amounts reflected in rates and adjustment of future amortization periods, in the same manner proposed by Indianapolis Power & Light in Indiana. It should also be noted that, with the 17-month delay in commencing regulatory amortization of "protected" excess ADIT amounts, it is highly unlikely that regulatory amortizations will be able to exceed ARAM restricted amounts given the absence of any regulatory amortizations throughout calendar year 2018 and the first five months of 2019.

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28 Exhibit 5 provides specific excerpts of the testimony filed in Kansas. In addition, the Consumer Advocate is providing full copies of the documents as electronic copies that will be filed simultaneously.

It is important to commence amortization of the Companies' large amounts of "protected" excess ADIT that should be returned to ratepayers without further delay. Excess ADIT balances represent taxes previously collected from ratepayers, when federal tax rates were much higher than under current law, and intergenerational equity argues for the return of such tax collections as soon as possible to ensure that more of the money is returned to the same customers who previously remitted those taxes. The utilities' apparent lack of urgency around finalizing precise quantification of ARAM values should not continue to be an obstacle to the return of these funds. The Consumer Advocate points out that unlike the earlier discussion related to the adjustment to the RBA balance due to the Tax Act, there should be no dispute that the protected excess ADIT should be returned to customers – the remaining issue relates to the appropriate amortization period to avoid violating tax normalization laws and rules. The Consumer Advocate contends that its recommended adjustment represents a measured approach by using a very conservative amortization period to timely deliver customer benefits that have been withheld by the Companies to date with no proposed solution in the near future. If the Consumer Advocate's recommendation is adopted and later information from the IRS and/or Power Tax suggests that a different amortization period is more appropriate, the parties can also rely on making appropriate adjustments to a regulatory asset/liability in the future. Additionally, commencing a conservatively estimated level of annual amortization of "protected" excess ADIT within the current decoupling process is important, since the conduct and timing of future general rate cases where this issue might be considered is highly uncertain. The pending

Performance Based Regulation Docket No. 2018-0088 is considering outcomes where traditional rate cases may be temporarily or indefinitely suspended.

To commence amortization of the Regulatory Liability associated with "Plant 282-protected" excess ADIT balances, the Consumer Advocate has inserted the proposed 40-year amortization periods within the "Life" column (f) of template Schedule D5 within Exhibits 1 through 4 to this Statement of Position. This insertion then populates column (g) with an annual amortization amount that flows through Schedule E to reduce the Depreciation and Amortization RAM calculation for each utility. A corresponding adjustment flows through the "ADIT Excess Reg Liability" line within Rate Base on Schedule D1, to reflect the increased amortization commencing mid-year that serves to increase rate base as amounts are returned to customers.

2. Joint Pole Revenues (Transmittals 19-01, 19-02 and 19-03).

Decision and Order No. 35768 (Docket No. 2018-0075) filed October 16, 2018, approved the Joint Application[29] of Hawaiian Telcom and the Hawaiian Electric Companies (i.e., the "Parties") regarding the transfer of joint pole assets between those Parties. In accordance with that approval, the joint pole assets were transferred to and recorded in the plant accounts of each of the Hawaiian Electric Companies in

29 The "Joint Application" refers to In the Matter of the Application of HAWAIIAN TELCOM, INC., AND HAWAIIAN ELECTRIC COMPANY, INC., HAWAI'I ELECTRIC LIGHT COMPANY, INC. AND MAUI ELECTRIC COMPANY, LIMITED For Approval of the Transfer of Equity Ownership Interest in Certain Joint Poles, to Commit Funds In Excess of $2,500,000, Accounting and Ratemaking Treatment, Amendments to Joint Pole Agreements Between the Applicants, Asset Transfer Agreement, and Pole Licensing Agreement.

October 2018. Decision and Order No. 35768 at 11-12 summarized the Proposed Transfer Price and related pole count as follows:

1. $24,665,897 for 50,661 poles that are jointly owned by Hawaiian Electric and Hawaiian Telcom;

2. $19,108,221 for 45,645 poles that are jointly owned by Hawaii Electric Light and Hawaiian Telcom; and

3. $4,195,974 for 23,279 poles that are jointly owned by Maui Electric and Hawaiian Telcom.

For purposes of the pending RBA/RAM transmittals, these additional plant assets are included in the end of year net cost of plant in service in both 2018 and 2019.[30]

As described in the Joint Application, Exhibit E (Docket No. 2018-0075) and the RBA/RAM tariff transmittals, the Companies' annual attachment fees received from Hawaiian Telcom and attachment/ancillary revenues from other parties are recorded as other operating revenue. Certain costs associated with the transferred poles are explicitly included within the RAM, such as rate base return and related depreciation expense. In order to mitigate the cost recovery impact of joint pole assets acquired from Hawaiian Telcom, including the return on and depreciation of the acquired assets in the Company's rate base, the Hawaiian Electric Companies' have also proposed to include within the Original RAM Methodology calculation on RBA/RAM Schedule A1 a portion of the incremental revenues forecast for 2019.[31]

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30 HELCO-2222 and HELCO-WP-2222 in Docket No. 2018-0368 contains additional information on the joint pole agreement and impact on revenue requirements in the pending Hawaii Electric Light 2019 test year rate case. This issue remains under review by the Consumer Advocate in that docket.

31 The offsetting Hawaiian Telcom pole attachment revenues used to reduce the calculation of the Original RAM Methodology on Schedule A1 are $2.4 million (HECO), $1.4 million (HELCO) and $650 thousand (MECO) for a total of about $4.4 million per year. Also, see Decision and Order No. 35768 at 19-20 (Docket No. 2018-0075).

As stated in the RBA/RAM tariff transmittals,[32] the Hawaiian Electric Companies contend that the "RAM Cap is based on net revenues from the last rate case which did not include the Joint Pole transaction; therefore, no adjustment for attachment fee revenues is needed for the RAM Cap. See Attachment 2, Schedule A1 for more details." At this time, the Consumer Advocate does not take issue with this RAM Cap contention. However, Note 3 of referenced Attachment 2, Schedule A1 includes the following statement:

> For ratemaking purposes, attachment and ancillary revenues received from Hawaiian Telcom and other third party attachers for use of the poles are reflected in other operating revenue and will offset any depreciation costs of transferred poles and related equipment, and the authorized return to the Companies shareholders.

Nevertheless, the pole attachment revenues the Hawaiian Electric Companies propose to recognize as an offset on Schedule A1 to the Original RAM calculation are limited to only existing pole attachment amounts due from Hawaiian Telcom and exclude all other joint pole related revenues from Hawaiian Telcom or other attachers estimated for 2019. Although the "HT existing pole attachment" shown in the following table are immaterially different from the comparable amounts on Schedule A1, it is clear that the Hawaiian Electric Companies' estimates of total joint pole revenues from all sources for 2019 significantly exceed the Joint Pole Revenue amounts reflected on Schedule A1:[33]

[32] See the respective RBA/RAM tariff transmittals at 23 (HECO), 20 (HELCO) and 19 (MECO).

[33] Support for the following table appears in Exhibit 7, CA-SOP-WP-7.2, page 1.

HAWAIIAN ELECTRIC COMPANIES
TRANSMITTALS 19-01, 19-02, 19-03 (DECOUPLING)
JOINT POLE REVENUES

HECO Joint Pole Revenues	2019	Reference
HT existing pole attachment	$ 2,371,807	Source: Informal CA-IR-49
HT new pole attachment	23,234	Source: Informal CA-IR-49
HT double pole remediation	334,693	Source: Informal CA-IR-49
HT unbilled pole	-	
Other attachment/ancillary	2,243,017	Source: Informal CA-IR-49
Subtotal	4,972,751	w/out interest income
Uncollectible Interest Income	700,000	Source: Informal CA-IR-48
CA Recommendation	$ 5,672,751	w/ interest income

HELCO Joint Pole Revenues	2019	Reference
HT existing pole attachment	$ 1,377,208	Source: HELCO-WP-2222
HT new pole attachment	295	Source: HELCO-WP-2222
HT double pole remediation	187,503	Source: HELCO-WP-2222
HT unbilled pole	312,478	Source: HELCO-WP-2222
Other attachment/ancillary	1,736,102	Source: HELCO-WP-2222
Subtotal	3,613,586	w/out interest income
Uncollectible Interest Income	700,000	Source: Informal CA-IR-48
CA Recommendation	$ 4,313,586	w/ interest income

MECO Joint Pole Revenues	2019	Reference
HT existing pole attachment	$ 650,798	Source: Informal CA-IR-49
HT new pole attachment	4,100	Source: Informal CA-IR-49
HT double pole remediation	127,804	Source: Informal CA-IR-49
HT unbilled pole	-	
Other attachment/ancillary	474,992	Source: Informal CA-IR-49
Subtotal	1,257,694	w/out interest income
Uncollectible Interest Income	200,000	Source: Informal CA-IR-48
CA Recommendation	$ 1,457,694	w/ interest income

Source: Exhibit 7, CA-SOP-WP-7.2, page 1.

Notably, 100% of the joint pole assets transferred to the Hawaiian Electric Companies are included in the beginning of year and end of year rate base for purposes of the 2019 RBA/RAM filings and the utilities are not "absorbing" any costs arising from the settlement with Hawaiian Telcom that are incurred but not included in the RAM calculations. For example, the asserted Rate Base RAM includes a full year return on the transferred joint pole investment. In addition, because the full amount of the transferred assets is included in the beginning of year plant in service at January 1, 2019 (or December 31, 2018), the Depreciation and Amortization RAM expense calculated on Schedule E includes a full year of depreciation expense on those transferred plant assets. Even though Note 3 of Attachment 2, Schedule A1, indicates that all Joint Pole Revenues (i.e., Hawaiian Telcom and third party attachers) "will offset any depreciation costs of transferred poles and related equipment, and the authorized return to the Companies shareholders", the Hawaiian Electric Companies have retained for the sole benefit of shareholders significant joint pole revenues (including other third party attachers) that are ignored within the 2019 RBA/RAM filings. In effect, the Hawaiian Electric Companies seek to recover a return on and depreciation of the joint pole assets in the 2019 RBA/RAM filings at ratepayers' expense without recognizing all of the available offsetting revenues associated with the transferred joint poles in the same filings.

In Decision and Order No. 35768 (Docket No. 2018-0075) at 69, the Commission approved the proposed Joint Pole transfer including accounting and ratemaking treatment stating, in part:

> 12. Based on the foregoing and subject to the condition below, the commission finds as reasonable the accounting and ratemaking treatment proposed by Applicants.
>
> 13. In making this determination, the commission underscores that its finding of reasonableness as to ratemaking treatment is based in large part on the HECO Companies' statements that they project that future revenue associated with these poles will offset the Proposed Transfer Price and related expenses, including O&M expenses.

In the pending Hawaii Electric Light 2019 test year rate case (Docket No. 2018-0368), HELCO-2222 at 1 states, in part:

> As explained below, the test year pole attachment and ancillary revenues from Hawaiian Telcom and third party attachers (e.g. wireline and wireless broadband and communication service providers) will exceed the associated incremental O&M costs, depreciation and the allowed return on the additional investment in the poles, resulting in a net neutral impact on the Company's test year revenue requirement. [emphasis added]

Further detail is provided in HELCO-2222 at 7 (Docket No. 2018-0368), with the statement indicating:

> All attachment fees and other ancillary revenues derived from Hawaiian Telcom, cable service providers, small cell wireless carriers, fiber service providers, and/or other service providers or users are included in other operating revenues. As Hawai'i Electric Light explores and learns under this new business arrangement, it is anticipated that overall, attachment and ancillary revenues will exceed the incremental O&M costs, depreciation and the allowed return on the additional investment in the poles. The results of the Hawai'i Electric Light's 2019 test year pro-forma income statement of the financial impact of the Asset Transfer are net neutral (or a net income of $14,894 as shown on Table 3 above).

The concept of the joint pole transfer being "net neutral" from a revenue requirement perspective is a creation of the Hawaiian Electric Companies, and has not been approved by the Commission. In approving the transfer of joint poles from Hawaiian Telcom to the Hawaiian Electric Companies, the Commission expressed its expectation that "revenue associated with these poles will offset the Proposed Transfer Price and related expenses, including O&M expenses." While the "net neutral" concept would seemingly meet that expectation, Decision and Order No. 35768 appears to set a breakeven point (i.e., revenues equaling costs) as more of a revenue requirement minimum expectation, rather than an optimal regulatory outcome.

Citing to Decision and Order No. 35768 at 69, Informal CA-IR-76 sought any analyses or calculations prepared by, or for, the Companies to determine whether the revenues included in the 2019 RBA/RAM filings were sufficient to offset the proposed transfer price (e.g., return on investment) and any related expenses (e.g., depreciation/amortization expense) included in such filings. In response, the Hawaiian Electric Companies cited to Hawaii Electric Light's submission of the financial impact studies of revenues, expenses, and rate base items associated with the joint pole transfer within HELCO-2222 and HELCO-WP-2222 in its 2019 test year rate case (Docket No. 2018-0368).[34] However, the response to Informal CA-IR-76 also indicated that the Companies have prepared no such analyses or calculations to determine whether joint pole revenues exceed related costs (e.g., return on and of joint pole assets) in the quantification of the RAM revenue adjustments in the 2019 decoupling filings. Recognizing the need for such analyses to prove that Joint Pole revenues at least offset and hopefully exceed the costs associated with the acquired assets, the Consumer Advocate prepared a high level estimate by comparing the Company's recognized level of joint pole revenues and costs, using data from the RBA/RAM filings and information supplied in response to Informal CA-IR-48, CA-IR-49 and CA-IR-50, as summarized below:[35]

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34 In HELCO's pending 2019 test year rate case (Docket No. 2018-0368), the Consumer Advocate has submitted extensive discovery seeking information regarding the joint pole transfer, associated revenues and costs including CA-IR-46, CA-IR-91, CA-IR-148, CA-IR-212, CA-IR-224 through CA-IR-242, and CA-IR-256 through CA-IR-273. The responses to most of these information requests remained outstanding at the time this Statement of Position was prepared.

35 Copies of the responses to Informal CA-IR-48, CA-IR-49, CA-IR-50 and CA-IR-76 are included within Exhibit 6. In addition, support for the following table appears in Exhibit 7, CA-SOP-WP-7.2, page 2.

HAWAIIAN ELECTRIC COMPANIES
TRANSMITTALS 19-01, 19-02, 19-03 (DECOUPLING)
COMPARISON OF JOINT POLE REVENUES & COSTS

HECO Joint Pole Revenues & Costs	2019 Est.
Depreciation RAM	$ 917,713
Rate Base RAM-Return on Investment	2,469,707
Joint Pole RAM Costs	3,387,420
Less: HECO Proposed Joint Pole Revs	(2,371,930)
HECO RAM Costs in Excess of Revenues	$ 1,015,490

HELCO Joint Pole Revenues & Costs	2019 Est.
Depreciation RAM	$ 792,724
Rate Base RAM-Return on Investment	2,028,184
Joint Pole RAM Costs	2,820,909
Less: HELCO Proposed Joint Pole Revs	(1,377,208)
HELCO RAM Costs in Excess of Revenues	$ 1,443,701

MECO Joint Pole Revenues & Costs	2019 Est.
Depreciation RAM	$ 146,904
Rate Base RAM-Return on Investment	430,120
Joint Pole RAM Costs	577,024
Less: MECO Proposed Joint Pole Revs	(650,862)
MECO RAM Costs Below Revenues	$ (73,838)

Source: Exhibit 7, CA-SOP-WP-7.2, page 2.

In the aggregate, these comparisons indicate that joint pole costs in the 2019 RBA/RAM filings far exceed the limited amount of available joint pole revenues the Hawaiian Electric Companies propose to recognize in quantifying the Original RAM Revenue Adjustment on Schedule A1. Notably, Joint Pole related costs presented in the above tables are limited to the Rate Base RAM (return on investment)[36] and Depreciation & Amortization RAM Expense.[37]

The Consumer Advocate has had limited opportunity to evaluate the joint pole matter in the 2019 RBA/RAM filings and has not completed its review of joint pole revenues and costs in the pending Hawaii Electric Light 2019 test year rate case. However, based on the above information, the 2019 RBA/RAM filings appear to exclude Joint Pole revenues to be received by the utilities, while including significant joint pole costs in excess of the limited portion of related revenues suggested by the utilities. This outcome appears inconsistent with the Companies' assertions in Docket No. 2018-0075 and is clearly contrary to the Commission's expectations in Decision and Order No. 35768 (Docket No. 2018-0075), at 69. For purposes of the current RBA/RAM filings, the Consumer Advocate recommends that the Commission recognize the additional 2019 revenues estimated by the Hawaiian Electric Companies in the response to Informal CA-IR-49 and HELCO-2222/HELCO-WP-2222 in Docket No. 2018-0368.

The Hawaiian Electric Companies recognized Joint Pole Revenues as a reduction in determining the asserted RAM Revenue Adjustment at Schedule A1, line 4, Column (c). These Company-proposed amounts have been replaced in Exhibits 1 through 4 with the Consumer Advocate's recommended values, as set forth in the Joint

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36 The return on investment is based on the Joint Pole Rate Base Impact supplied on Attachment 1 to Informal CA-IR-50 multiplied by the pretax return rate and revenue tax factor from each company's RBA/RAM Schedule D.

37 The Depreciation & Amortization RAM Expense is based on the plant asset value of the joint pole capital transfer price from Hawaiian Telcom recorded in 2018 times each company's book depreciation rate for pole account 364 effective in 2019, as set forth of RBA/RAM Schedule E.

Pole Revenue table set forth above and supported by Exhibit 7, CA-SOP-WP-7.2, page 1.

C. PERFORMANCE INCENTIVE MECHANISMS (Transmittal 19-01).

This is the first iteration of decoupling transmittals containing incentives and penalties arising from Performance Incentive Mechanisms ("PIMs") that were approved by the Commission in other dockets. Each of the Companies has added Schedule M to the RBA/RAM template calculations, summarizing the utility's measured versus targeted performance relative to the established Service Quality PIMs and Renewable Energy RFP incentive measures. The Consumer Advocate has reviewed these calculations and concurs with the Companies' quantification of PIM results for 2018, except for the proposal of Hawaiian Electric Company to exclude certain outages from its measurement of actual SAIFI and SAIDI results in 2018. The Consumer Advocate recommends application of PIMs in the form they were developed and approved by the Commission in Docket No. 2013-0141 and does not support ad hoc adjustments or attempted "normalization" of actual reliability data in the manner proposed by Hawaiian Electric.

On December 18, 2018, Hawaiian Electric Company filed Transmittal No. 18-05 requesting permission to modify its calculated 2018 SAIDI and SAIFI performance metrics to exclude certain planned outages that occurred in July 2018 as a result of certain 25kV splice replacement projects. The Company argued that excluding the planned outages from the performance metrics calculations is consistent with the intent of these PIMs, as exclusion avoids the result of penalizing the Company for efforts to improve reliability through such planned outages. The effect of this exception to established PIM procedures would reduce the 2018 SAIFI penalty from $1.3 million to $0.9 million and would completely eliminate the calculated SAIDI penalty of $0.9 million, for a combined favorable impact to the utility of $1.32 million, as shown in Transmittal 19-01 at page 14. Hawaiian Electric Company has excluded the subject outage events, even though the Commission has not approved the relief requested in Transmittal No. 18-05.

The Consumer Advocate recommends the Commission reject the Company's proposed adjustment to calculated reliability PIM results for several reasons:

1. As a matter of policy, the Commission should consider modifications to Performance Incentive Mechanisms within established docketed proceedings, rather than expedited decoupling transmittals, so that adequate procedural opportunities exist to evaluate alternatives and to enable all stakeholders an opportunity to participate in consideration of PIM modifications.
2. Permitting ad hoc adjustments to measured annual performance after PIMs have been established invites gaming and enables the utility to select and propose normalizing methods with the advantage of access to information not available to other stakeholders.
3. Reliability performance in July 2018, when the Company's adjustment is proposed, was not the worst of all months in 2018. After the Company's adjustment in July, performance is unusually stronger than in other months, implying that other considerations beyond the 25kV planned

outages have more explanatory value for reliability performance throughout the calendar year.

4. Hawaiian Electric's proposal improperly seeks to adjust 2018 measured performance to exclude planned outages, while not adjusting the average historical performance that was used to establish PIM targets so as to maintain comparability.

5. The future reliability benefits resulting from the planned outages occurring in 2018 should serve to improve and reward future utility performance under SAIDI and SAIFI PIMs, effectively rewarding the utilities for any near-term penalties that resulted from the planned outages.

6. Permitting ad hoc adjustments is inconsistent with the Commission's planned broadened evaluation and use of PIMs within the pending Performance Based Regulation Docket No. 2018-0088.

A brief discussion of these considerations is offered at this time. The Consumer Advocate also offered thoughts in its January 7, 2019 letter filed in response to Hawaiian Electric's Transmittal No. 18-05, including, but not limited to: 1) the inclusion of planned maintenance in the reported data might provide greater incentive to do such work on a timely basis to avoid later outages of greater frequency and duration; and 2) planned outages should result in future outages with decreased frequency and duration and, thus, should balance the concerns with near-term impacts. The Consumer Advocate would support more comprehensive consideration of exceptions and adjustments to established PIMs within Docket No. 2018-0088 or within other dockets that may be established by the Commission, rather than on a piecemeal basis in decoupling filings. Until that time, however, the Commission should not approve the Companies' proposed modifications as they are inconsistent with the Commission approved guidance and also inconsistent with the consumers' interests. The initial establishment of PIMs for the Hawaiian Electric Companies occurred in Docket No. 2013-0141, pursuant to Order No. 34514 issued on April 27, 2017. Order No. 34514 provided for a process through which the HECO Companies were directed to propose initial tariffs to implement PIMs consistent with the provisions in the order, followed by comments from Parties to Docket No. 2013-0141, then followed by an Order resolving any remaining issues to direct the resubmission of final tariffs. On December 29, 2017, Order No. 35165 was issued in the same investigatory docket, implementing revisions to previously filed PIM tariffs to be effective January 1, 2018, with annual review of measured performance and resulting incentives or penalties for evaluation periods starting with calendar 2018. The Company's PIM tariffs, as approved in prior Commission Orders are included in Attachment 1 of Transmittal 19-01 and do not provide for any normalizing adjustments to measured performance of the type now proposed by Hawaiian Electric when determining PIM incentives or penalties. The Consumer Advocate appreciates the opportunity that the Parties in Docket No. 2013-0141 were afforded to have input into the process of establishing initial PIMs and recommends against short circuiting this process through acceptance of after the fact amendments to the previously approved PIM tariffs.

Utility management has access to system performance, operational and maintenance information that is not readily available to the Consumer Advocate, the Commission or other stakeholders. If measured performance in administering PIMs is opened to adjustment for discrete events or programs in an effort to "normalize" outages or other anomalies, the Company is uniquely positioned to employ its information advantage to game the PIM process and frustrate the goal of the PIMs to encourage and reward improved performance.

HECO-WP-M-002 provides the Company's calculated monthly SAIDI and SAIFI results "With and Without 25 kV Scheduled Work Outages" for which an exclusion adjustment is proposed. The proposed adjustments to interruptions and interruption minutes are isolated within the single month of July 2018. If the 25kV Scheduled Work Outages were the primary driver of poor reliability performance throughout calendar 2018, one would expect the month of July to reflect relatively poor performance compared to the other months of 2018. However, "Hours Interrupted" were actually highest in September and December of 2018 and the number of customer interruptions was higher in March, April, June, August, September and December than in July. From a different perspective, upon review of the "adjusted" data in HECO-WP-M-002 "Without 25kV Schedule Work Outages", the effect of the Company's proposed adjustments in July causes that single month to become the lowest of all months except January in numbers of "Customer Interruptions" and the lowest of all months in 2018 for "Hours Interrupted." This result suggests that there are other drivers of performance with more explanatory value for service reliability problems than the 25kV schedule outages Hawaiian Electric would like to exclude from measured performance.

Both data consistency and comparability are important factors in the design and administration of PIMs. If the Company's measured SAIDI and SAIFI performance in 2018 is allowed to be normalized to exclude certain scheduled outages occurring in July, the resulting normalized performance must then be compared to comparably normalized historical average data, rather than the actual reliability data relied upon to establish targets within the PIMs. The existing PIM tariffs contain performance targets and deadbands based on the Company's actual record of historical performance during the 10-year period 2008-2017, as filed with the Commission in Docket No. 2016-0328 on July 23, 2018. If selected outage events are approved for exclusion from measured performance in 2018, it is essential that the PIM performance targets for the prior 10 years be analyzed and revised to exclude similar planned outage events in order for the targets to remain comparable to measured "normalized" performance. However, the Company's calculations in HECO-WP-M-001 do not propose any modification of established SAIDI and SAIFI target levels.

In response to Informal CA-IR-69, the Company stated, "For the 2019 annual decoupling filing, Hawaiian Electric is requesting to exclude only the outages related to the July 2018 25kV project for the purpose of the 2018 SAIDI and SAIFI PIM reporting. Hawaiian Electric is not proposing to recalculate the 2018 PIM targets, deadbands, and financial incentives. Hawaiian Electric is making this one-time request to exclude the 25kV project due to the unique nature of the project, as described in the response to Informal CA-IR-65." In response to Informal CA-IR-65, the Company reiterated this statement and stated, "The work and circumstances involved in the July 2018 25kV project are unprecedented; there were no similar types of projects in the 2008-2017 timeframe and therefore, no corresponding outages to exclude from the calculation of the 2018 PIM target." Unfortunately, there is only limited time and resources available within expedited decoupling transmittal reviews to independently verify these opinions.

The rationale offered by Hawaiian Electric for excluding outages associated with the 25kV project and reducing PIM penalties is that exclusion is "consistent with the intent of these PIMs, as exclusion would avoid the inequitable result of penalizing the Company for efforts that align with the reliability PIM goals of maintaining service quality, reducing outage duration and frequency, and minimizing negative impacts to customers." This argument is intuitively appealing, but fundamentally flawed. As noted earlier and in response to Transmittal No. 18-05, if we assume that the 25kV splice project will, in fact, reduce future outage duration and frequency as expected, the PIM penalties suffered by Hawaiian Electric in 2018 because of these planned outages should be more than offset by improved SAIDI and SAIFI performance in future years. Said differently, if the 25kV project was prudently undertaken, the potential for commensurately improved PIM financial incentives (or reduced penalties) relative to 10-years of rolling historical targeted performance levels should more than offset any penalties incurred in 2018 because of the project. Furthermore, if the Commission were to adopt the Hawaiian Electric normalization proposal, these reduced normalized results should be recognized in the calculation of future average performance levels and to avoid a potential "double" benefit – improved 2018 adjusted statistics but higher unadjusted average statistics making it easier to meet future targets.

Finally, the Consumer Advocate and the Hawaiian Electric Companies have been interacting with the Commission Staff and other stakeholders in Docket No. 2018-0088, where Performance Based Regulation is expected to include a more comprehensive review of PIMs in upcoming Phase 2. The Consumer Advocate views the Company's proposed ad hoc revisions to existing reliability measurement and potentially the related PIM targets as more properly considered within this broader investigatory docket, where all concerned parties can more carefully examine and consider the implications of such ad hoc adjustments.

If any adjustments are to be made, they should be done only prospectively after careful and comprehensive review. Granting the Companies' request to modify the calculation of reliability results on an ad hoc and/or post hoc basis potentially violates at least one long-standing regulatory tenet – avoiding single issue ratemaking. The Consumer Advocate urges the Commission to consider that, regardless of whether it is traditional cost of service or performance based regulation, allowing a party to cherry-pick events for later regulatory treatment is patently unfair and has long been discouraged by this and other regulatory commissions. In this instance, the Company's proposal seeks an adjustment for a specific event that had not been anticipated in order to change the results of the PIM analysis in shareholders' favor. The Consumer Advocate cautions the Commission about accepting the Companies' adjustment as it could set poor precedent as Hawaii proceeds along the new regulatory paradigm of performance based regulation. If a utility will be allowed to selectively exclude certain performance events that lead to adverse outcomes to shareholders, it would not result in a clear signal to utility management and shareholders about the relationship between performance and financial incentives – whether they be rewards or penalties.

Exhibits 1 and 2 include the Consumer Advocate's proposed adjustment to reinstate Hawaiian Electric's reliability PIM results on an actual, reported basis for 2018. The adjustment appears at Schedule A, line 6 of both exhibits by revising the link to pick up the amounts of penalty calculated by the Hawaiian Electric on Schedule M "Without Exclusion" rather than the incentive amount now reflected on the next line captioned "Total With Exclusion."

D. TARIFF AND ADMINISTRATIVE MATTERS.

1. Tariff Modifications.

The Consumer Advocate has reviewed the tariff edits proposed by the Companies within Attachments 1 and 1A in Transmittals 19-01, 19-02 and 19-03 and takes no exception to the proposed changes. Upon resolution by the Commission of the issues raised by the Consumer Advocate and determination of the recovery method most appropriate for the West Loch revenue requirements, conforming adjustments will be required for the final RBA rate, RBA Section H "Target Revenue Currently in Effect" and the amounts within RBA Section I "Historical Reference."

2. Contributions in Aid of Construction.

In Section VII.2 of the RBA/RAM applications, the Hawaiian Electric Companies explain the interaction between the RAM Revenue Adjustment RAM Cap and the Original RAM Methodology. One of the noted changes to the Original RAM Methodology concerns an adjustment to reflect contributions in aid of construction ("CIAC") in net in plant in service in 2018. Previously, CIAC was recorded in a separate balance sheet account (Account 271) which was used to reduce rate base and separately amortized as a reduction to depreciation expense. RBA/RAM application Section VII.2.2.4 describes the adoption of the Federal Energy Regulatory Commission's ("FERC's") Uniform System of Accounts, resulting in the change in CIAC accounting, beginning with the implementation of the Companies' new ERP/EAM system. Attachment 3 of the RBA/RAM transmittals further describe the treatment of CIAC for book accounting purposes and the proposed modifications to Schedules D1, D2, D3, E, and the G series.

For purposes of the current applications, the Consumer Advocate has not proposed any adjustments or modifications to the Companies' proposed RBA/RAM treatment for CIAC. However, the Consumer Advocate is aware of and continues to review this CIAC accounting change in the pending Hawaiian Electric Light 2019 test year rate case (Docket No. 2018-0368). Because the RBA/RAM filings are conducted on an expedited schedule and the CIAC accounting change remains under review, the absence of an adjustment by the Consumer Advocate at this time should not be construed or interpreted as acceptance of the Companies' proposed accounting and ratemaking treatment.

3. Transmittal Review Period.

The RBA Tariff provides for the filing of decoupling transmittals "on or before March 31 of each year." The intended effective date for RBA rate changes is June 1, providing only approximately 60 days for review and informal discovery by the Consumer Advocate, the submission of the Consumer Advocate's Statement of Position, review by the Companies and submission of any Reply SOP and then deliberation and approval by the Commission. These intervals were established at the inception of decoupling in Docket No. 2008-0074, before the RAM Cap, Major Project Interim Recovery and Performance Incentive Mechanisms were layered into the decoupling mechanism. These intervals also did not contemplate the addition of other periodic unique adjustments into the decoupling process, such as the current appending of cost recovery for On Bill Financing program, refunds from recent rate case proceedings or offsets for Joint Pole revenues. In the pending Performance Based Regulation Docket No. 2018-0088, it is contemplated that multiple new PIMs may be installed, along with more expansive earnings sharing and monitoring and other potential new regulatory mechanisms. With the annual decoupling process increasingly burdened with layers of additional regulatory analysis and the potential for disputes around significant new issues raised in this process, the Consumer Advocate recommends that the filing and review intervals for processing of decoupling transmittals be reviewed and appropriately adjusted, either in the context of these transmittals as RBA tariff revisions or in the broader context of Docket No. 2018-0088 Phase 2. In the alternative, it will be incumbent upon the parties in future dockets to ensure that adequate and comprehensive decoupling accounting and procedures are thoroughly vetted during those dockets (or transmittals) to reduce the amount of non-mechanical or issue-driven analyses and discussions in the annual decoupling filings.

III. CONCLUSIONS AND RECOMMENDATIONS.

For the reasons set forth herein, the Consumer Advocate recommends that the calculated adjustment to revenues proposed by the Hawaiian Electric Companies in Transmittal Nos. 19-01, 19-02, and 19-03 should be revised and reduced, as reflected within the modified template calculations attached as Exhibits 1, 3, and 4 to this Statement of Position. In the event MPIR recovery of West Loch is not approved by the Commission in Docket No. 2016-0342, the attached Exhibit 2 should be employed to determine Hawaiian Electric Company's revised target revenue and RBA rate level. These outcomes are summarized in the following table:

Cumulative RBA Revenue Adjustment (Sch A) $000	Companies Filed Transmittals	Consumer Advocate Proposed
HECO (without West Loch)		
RBA	$ 41,857	$ 41,815
RAM & Credits	27,063	16,401
Total	$ 68,920	$ 58,216
HECO (with West Loch)		
RBA	$ 41,857	$ 41,815
RAM & Credits	27,952	18,988
Total	$ 69,809	$ 60,803
HELCO		
RBA	$ 2,107	$ 2,070
RAM & Credits	10,023	6,053
Total	$ 12,131	$ 8,123

MECO

RBA	$	6,876	$	6,872
RAM & Credits		2,947		813
Total	$	9,823	$	7,685

Note: Amounts may not total due to rounding.

DATED: Honolulu, Hawaii, May 10, 2019.

Respectfully submitted,

By Dean Nishina

DEAN NISHINA
Executive Director

DIVISION OF CONSUMER ADVOCACY

Hawaii Electric Light Company - Transmittal 19-02 RBA Provision
Summary of Consumer Advocate Statement of Position Adjustments

Line No.	Description	Template Reference		RBA Revenue Adj. Impact
1	Continue RBA Interest Calculation Net of Tax	Schedule B	$	(6,168)
1a	Reduce RBA Interest Rate 9/1/17, not 7/1/18	Schedule B	$	(31,511)
2	Commence Estimated ARAM Excess ADIT Amortization	Schedule D5	$	(1,033,552)
3	Joint Pole Revenues	Schedule A1	$	(2,936,378)

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF 2019 REVENUE BALANCING ACCOUNT RATE ADJUSTMENT

Line No.	Description (a)	Reference (b)	Amount (c)	6/1/2019 Rate Amount (d)		
	RECONCILIATION OF RBA BALANCE:					
1	RBA Prior calendar year-end balance	Schedule B	1,670,130			
1a	OBF Program Implementation Cost Recovery - Year 1 of 2	Schedule N	215,780			
			1,885,910			
2	Revenue Tax Factor	Schedule C	1.0975			
3	Revenue for RBA Balance			2,069,786		
	RATE ADJUSTMENT MECHANISM "RAM" AMOUNT:					
4	Total RAM Revenue Adjustment Allowed (Note 2)	Schedule A1		$ 6,142,905		
5	EARNINGS SHARING REVENUE CREDITS - 2019 ROE:	Schedule H		-		
6	PERFORMANCE INCENTIVE MECHANISM REWARD (PENALTY)	Schedule M		(15,435)		
7	2016 TEST YEAR RATE CASE FINAL D&O REFUND	HELCO-WP-H-007		(74,000)		
8	PUC-ORDERED MAJOR OR BASELINE CAPITAL PROJECTS CREDITS:	Schedule I		-		
9	TOTAL RBA REVENUE ADJUSTMENT	Sum Col. (d)		$ 8,123,256		
10	GWH SALES VOLUME ESTIMATE JUNE 2019 - MAY 2020	HELCO-WP-A-001		1,062.800	6/1/2018	Incremental
11	RBA RATE ADJUSTMENT - cents per kWh	Note 1		**0.7643**	**1.0006**	**(0.2363)**
12	MONTHLY BILL IMPACT @ 500 KWH			**$ 3.82**	**$ 5.00**	**$ (1.18)**

Note 1: 2019 RBA Rate Adjustment Breakdown

	Col. (d)	Rate Adjustment cents per kWh	Percentage Share
RBA Balance	$ 2,069,786	0.19474840	25.4798%
RAM Amount	$ 6,142,905	0.57799256	75.6212%
Earnings Sharing Revenue Credits	$ -	0.00000000	0.0000%
Performance Incentive Mechanism Reward (Penalty)	$ (15,435)	-0.00145227	-0.1900%
2016 Test Year Rate Case Final D&O Refund	$ (74,000)	-0.00696274	-0.9110%
Major or Baseline Capital Projects Credits	$ -	0.00000000	0.0000%
	$ 8,123,256	0.76432595	100.0000%

Note 2: Total RAM Revenue Adjustment Allowed is the sum of the RAM Cap + Exceptional and Other Projects. See Order No. 32735, filed March 31, 2015, paragraph 107, page 94, which states that the Total RAM Revenue Adjustment is to be comprised of the RAM Cap plus recovery of Exceptional And Other Matters.

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF TOTAL RAM REVENUE ADJUSTMENT ALLOWED

Line No.	Description	Reference		Amount
	(a)	(b)		(c)
	RAM REVENUE ADJUSTMENT DETERMINED ACCORDING TO EXISTING TARIFFS AND PROCEDURES			
1	O&M RAM	Schedule C	$	3,579,136
2	Rate Base RAM - Return on Investment (Note 2)	Schedule D	$	3,649,135
3	Depreciation & Amortization RAM Expense	Schedule E	$	3,228,220
4	Joint Pole Revenues	Note 3	$	(4,313,586)
5	Total RAM Revenue Adjustment		$	6,142,905
	RAM REVENUE ADJUSTMENT CAP			
6	RAM Cap for 2019 RAM Revenue Adjustment	Schedule J	$	10,112,835
7	Plus: Exceptional and Other Matters	Schedule K		-
8	2019 Cap - Total RAM Revenue Adjustment		**$**	**10,112,835**
9	**Total RAM Revenue Adjustment Allowed** (Note 1)	Lesser of Line 5 or Line 9	**$**	**6,142,905**
				To Sch A

Note 1: RAM Revenue Adjustment Allowed:
See Order No. 32735, filed March 31, 2015, paragraph 106, page 94:
"The RAM Revenue Adjustment to be applied to determine effective Target Revenues will be the **lesser of** (a) the RAM Revenue Adjustment determined according to existing tariffs and procedures or (b) a RAM Revenue Adjustment Cap ("RAM Cap) to be calculated as specified."

Note 2: Total RAM Cap:
See Order No. 32735, filed March 31, 2015, paragraph 110, page 96:
"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."

Note 3: See Decision and Order No. 35768, Docket No. 2018-0075 filed October 16, 2018. Commission approved the Asset Transfer, Pole Licensing and Amended Joint Pole Agreements and the accounting and ratemaking treatment described in Exhibit E of the Application. The negotiated settlement over a ten year period for attachment fees, inclusive of revenue taxes, is $1,377,208 per year.

For ratemaking purposes, attachment and ancillary revenues received from Hawaiian Telcom and other third party attachers for use of the poles are reflected in other operating revenue and will offset depreciation costs of transferred poles and related equipment, and the authorized return to the Companies shareholders.

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
SUMMARY OF ACCUMULATED REVENUE BALANCING ACCOUNT

Line No.		Month	Beginning Balance	Target Revenues	Recorded Adjusted Revenue	Variance to RBA	Adjustment for prior year RBA accrual	RBA Balance Before ADIT	ADIT Related to RBA Revenues	Net Ending Balance	Average Balance Subject to Interest	Interest at ~~3.25%/year~~ 1.50%/year	Ending Balance
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	Monthly RBA Balance and Activity (Monthly PUC Rpt., Pg. 9A)												
1	2017	December	$ 3,128,648	$ 13,230,418	$ 12,492,192	$ 738,226	$ (253,086)				$ 2,059,477	$ 5,578	$ 3,619,366
2		December - Revised			Adjust for Prior Year Interest Recal		$ (10,606)	$ 3,608,760	$ (929,323)	$ 2,679,436			
3													
4	2018	January	$ 3,619,366	$ 13,301,362	$ 12,835,840	$ 465,522	$ (258,886)	$ 3,826,002	$ (985,267)	$ 2,840,735	$ 2,760,085	$ 3,450	$ 3,829,452
5		February	$ 3,829,452	$ 12,451,601	$ 11,560,335	$ 891,266	$ (235,377)	$ 4,485,341	$ (1,155,060)	$ 3,330,281	$ 3,087,233	$ 3,859	$ 4,489,200
6		March	$ 4,489,200	$ 13,258,795	$ 12,733,942	$ 524,853	$ (257,906)	$ 4,756,147	$ (1,224,797)	$ 3,531,350	$ 3,432,745	$ 4,291	$ 4,760,438
7		April	$ 4,760,438	$ 12,725,921	$ 12,731,188	$ (5,267)	$ (258,997)	$ 4,496,174	$ (1,157,849)	$ 3,338,325	$ 3,436,983	$ 4,296	$ 4,500,470
8		May	$ 4,500,470	$ 12,317,361	$ 12,005,643	$ 311,718	$ (257,627)	$ 4,554,561	$ (1,172,885)	$ 3,381,676	$ 3,362,148	$ 4,203	$ 4,558,764
9		June	$ 4,558,764	$ 12,249,452	$ 11,937,887	$ 311,565	$ (296,111)	$ 4,574,218	$ (1,177,947)	$ 3,396,271	$ 3,391,075	$ 4,239	$ 4,578,457
10		July	$ 4,578,457	$ 13,081,645	$ 12,872,216	$ 209,429	$ (323,761)	$ 4,464,125	$ (1,149,596)	$ 3,314,529	$ 3,357,519	$ 4,197	$ 4,468,322
11		August	$ 4,468,322	$ 13,284,767	$ 13,043,681	$ 241,086	$ (330,384)	$ 4,379,024	$ (1,127,681)	$ 3,251,343	$ 3,285,034	$ 4,106	$ 4,383,130
12		September	$ 4,383,130	$ 12,449,542	$ 12,252,488	$ 197,054	$ (308,685)	$ 4,271,499	$ (1,099,991)	$ 3,171,508	$ 3,213,478	$ 4,017	$ 4,275,516
13		October	$ 4,275,516	$ 12,957,347	$ 13,673,359	$ (716,012)	$ (323,713)	$ 3,235,791	$ (833,277)	$ 2,402,514	$ 2,789,019	$ 3,486	$ 3,239,277
14		November	$ 3,239,277	$ 12,525,334	$ 12,989,338	$ (464,004)	$ (300,900)	$ 2,474,373	$ (637,198)	$ 1,837,175	$ 2,121,588	$ 2,652	$ 2,477,025
15		December	$ 2,477,025	$ 12,720,877	$ 13,224,782	$ (503,905)	$ (304,914)	$ 1,668,206	$ (429,594)	$ 1,238,611	$ 1,539,219	$ 1,924	**$ 1,670,130**
16		Total		$ 153,324,004	$ 151,860,699	$ 1,463,305	$ (3,457,261)					$ 44,720	***To Sch A***
17													
18	2019	January	$ -	$ 12,789,089	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
19		February	$ -	$ 11,972,055	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
20		March	$ -	$ 12,748,162	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
21		April	$ -	$ 12,235,810	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
22		May	$ -	$ 12,569,293	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
22a		OBF Recovery	$ 431,561										
23		June	$ -	$ 12,228,363	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
24		July	$ -	$ 13,059,123	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
25		August	$ -	$ 13,261,895	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
26		September	$ -	$ 12,428,108	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
27		October	$ -	$ 12,935,038	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
28		November	$ -	$ 12,503,770	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
29		December	$ -	$ 12,698,976	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
30				$ 151,429,682									
	Sources of Data:			*Sch B1*	*Sch B2*	Col (c) - (d)	Note 1	Cols (b)+(e)+(f)	Note 2	Note 2 & 3 Cols (g)+(h)	Curr Col (i)+ Prior Col (i)+(k) /2	Note 4	Col (g)+(k)

Note 1: Amounts represent recovery of prior years' RBA balance through the RBA rate adjustment effective June 1, 2017 for the period June 2017 through May 2018 and June 1, 2018 for the period June 2018 through May 2019. See HELCO WP-B-001.

Note 2: On December 22, 2017, the 2017 Tax Cuts & Jobs Act was signed into law to be effective for tax years ending after December 31, 2017. In accordance with IRC §451(b), "…the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in... an applicable financial statement of the taxpayer...". This change would supersede the RBA tax accounting treatment (deferred until received in rates) the IRS approved for the Companies on April 21, 2014 and adopted in Decision & Order No. 31908 on Schedule A of the Decoupling Investigation, issued in Docket No. 2013-0141 on February 7, 2014.

IRC §451(b) would eliminate the book tax temporary difference for which ADIT was provided and accordingly, would reduce to zero the tax adjustment to the basis for calculating RBA interest. This change imposed by IRC §451(b) should allow for the deferred RBA income (on which the RBA ADIT balance at December 31, 2017 is based) to be amortized into taxable income over the next 4 years (straight-line basis) with the effect of reducing the tax adjustment balance down to zero by the end of 2021.

RBA Regulatory Asset Balance at 12/31/2017	3,619,366
Composite Federal & State Income Tax Rate	25.75%
RBA ADIT Balance at 12/31/2017	932,055
Years	4
Annual amortization for years 2018 through 2021	233,014
Monthly ADIT amortization	19,418

Note 3: In April 2018, the Companies adjusted the March 31, 2018 RBA balance for the change in accounting methodology identified in Note 2. The January to March 2018 RBA balance subject to interest was recalculated and the RBA Balance was trued-up in April 2018 for $1,394.

Note 4: On June 29, 2018, the Commission issued the Final Decision & Order No. 35559 for the Hawaii Electric Light 2016 tear year rate case (Dkt No. 2015-0170). As the pro-rated RBA interest of 1 day (06/30/18) in June is immaterial, Hawaii Electric Light will use the short term debt rate of 3.25% to calculate the RBA interest for June. Beginning July 1, 2018, Hawaii Electric Light will use the approved short term debt rate of 1.50% to calculate the RBA interest as approved by the Commission in Docket No. 2015-0170.

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF RATE BASE RAM ADJUSTMENT - CHANGE IN RATE BASE
($ in Thousands)

Line No.	Description	HELCO 2016 Test Year Rate Base (Note 2) Beg Balance 12/31/16	Budgeted Balance 12/31/2016	HELCO 2019 RAM Rate Base Adjusted Recorded at 12/31/2018	RAM Projected Amounts	Estimated at 12/31/2019	
	(a)	(b)	(c)	(d) Note 1	(e) See Detail Below	(f)	
1	Net Cost of Plant in Service, Net of CIAC	$ 649,484	$ 667,682	$ 611,214	$ 127	$ 611,341	
2	Property Held for Future Use	987	755	These Elements of Rate Base are Not Updated for RAM Purposes			
3	Fuel Inventory	6,021	6,021				
4	Materials & Supplies Inventories	7,082	7,082				
5	Unamort Net ASC 740 Reg Asset	11,463	11,477				
6	Pension Tracking Regulatory Asset	22,912	26,421				
7	Contribution in Excess of NPPC	1,524	1,524				
8	Pension Tracking Regulatory Asset	-	-				
9	Deferred System Development System	4,848	4,169				(Note 5)
10	Total Additions	$ 704,321	$ 725,131	$ 667,357	$ 127	$ 667,484	
11	Unamortized CIAC	$ (95,298)	$ (97,211)	$ (3,160)	$ -	$ (3,160)	(Note 3)
11a	Developer Advances	-	-	$ (3,308)	$ -	$ (3,308)	(Note 3)
12	Customer Advances	(11,172)	(11,259)	Not Updated			(Note 3)
13	Customer Deposits	(3,224)	(2,788)				
14	Accumulated Def Income Taxes	(101,743)	(110,377)	(57,663)	(745)	(58,408)	(Note 4), Sch D4
15	ADIT Excess Reg Liability	-	-	(56,685)	914	(55,771)	
16	Unamortized State ITC (Gross)	(15,184)	(15,787)	Not Updated			
17	Pension Reg Liability (Prepaid)	(496)	(1,370)				
18	OPEB Reg Liability	(1,548)	(2,080)				
19	Total Deductions	$ (228,665)	$ (240,872)	$ (153,270)	$ 169	$ (153,101)	
20	Working Cash	$ 1,351	$ 1,351	$ 1,351	Not Updated	$ 1,351	
21	Rate Base at Proposed Rates	$ 477,007	$ 485,610	$ 515,438		$ 515,734	
22	Average Rate Base		$ 481,309			$ 515,586	
23	**Change in Rate Base**					$ 34,277	*To Sch D*

Line No.	Description	Reference	Amount $000
24	Column (e) Projected Changes to Rate Base:		
25	Plant - Baseline Capital Project Additions, Net of CIAC	Schedule D2	$ 43,457
26	Major Capital Project Additions, Net of CIAC	Schedule D3	-
27	Accumulated Depreciation/Amortization Change	Schedule E	(43,330)
28	Net Plant	Sum: Lines 25-27	$ 127
29	ADIT - Baseline and Major Capital Projects	Schedule F	$ (745)
30	Excess ADIT Reg Liability Amortization	Schedule D5	1498

Note 1: Amounts are recorded, except for the following adjustments:

		Plant in Service	Acc. Depr.
[A]	Unadjusted Balance	$ 1,265,150	$ (550,869)
	Add:		
[A]	Asset Retirement Obligation		$ (2,006)
[A]	Reg Liab-Cost of Removal (net salvage)		$ (104,082)
[A]	Retirement Work In Progress		$ 3,021
	Unbilled Pole Credits (HELCO-WP-H-001)	$ (937)	
	Major Project Adjustments:		
	N/A		
	Total Adjustments	$ -	$ -
	Adjusted Balance	$ 1,265,150	$ (653,936)

[A] SOURCE: Hawaii Electric Light Company, Inc. Monthly Financial Report - December 2018, filed February 28, 2019.

Note 2: See Final Decision and Order No. 35559, For Approval of Rate Increases and Revised Rate Schedules and Rules, in Docket No. 2015-0170, filed June 29, 2018, Exhibit B, Page 1.

Note 3: Per PowerPlan extract. Effective October 2018, the Company reclassified CIAC to Plant in Service or CWIP consistent with FERC guidelines. As of December 2018, Cash CIAC received from Developers, subject to refund, were reclassified to Customer Advances for financial statement purposes. Starting 2018, CIAC has been netted with either Plant in Service or CWIP and Developer Advances which has been included as a reduction to rate base. See further discussion of the Company's treatment of CIAC at HECO-WP-D1-001.

Note 4: As a result of the 2017 Tax Reform Act, Regulatory Liability accounts were created to isolate the impact of the 2017 excess accumulated deferred taxes effective in actuals as of December 2017. These Regulatory Liabilities will be included as a reduction to Rate Base in the future. The ADIT balance shown in this revenue requirement is the composite of the ADIT and the Regulatory Liabilities for Deferred Taxes. See further discussion at Schedule F.

Note 5: HELCO 2016 Test Year Rate Base includes CIS Deferred Costs in Unamortized System Development Costs. See detail in July 11, 2017 Stipulated Settlement Letter, HELCO T-11, page 2.

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF ADJUSTED RECORDED EXCESS ADIT REGULATORY LIABILITY

Line No.	NARUC Account	Reference	DR/(CR) Balance at 12/31/17	DR/(CR) Adjustments	DR/(CR) Amortization	DR/(CR) Balance at 12/31/18	Life	Amortization	Est Bal at 12/31/19
	(a)	(b)	(c)	(d)	(e)	(f) =(c) + (d) + (e)	(g)	(h) = (c) / (g)	(i) = (f) + (h)
1	Recorded Excess ADIT Regulatory Liability Balances December 31, 2018 Recorded Balances								
2	Plant 282 - protected		(54,306,715)	(1,714,011)		(56,020,726)	40	1,400,518	(55,203,757)
3	Plant 283 - unprotected		(362,017)		16,093	(345,924)	15	24,140	(321,784)
4	Nonplant 283 - unprotected		(367,786)		49,038	(318,748)	5	73,557	(245,191)
5	Total Excess ADIT Regulatory Liability		(55,036,518)	(1,714,011)	65,131	**(56,685,398)**		**1,498,215**	**(55,770,732)**
			Note 1		Note 2	***To Sch D1***		***To Sch D1*** ***To Sch E*** ***To Sch F***	***To Sch D1***

Note 1: The 12/31/17 balances represent the amortization base presented in Docket 2015-0170 Hawai'i Electric Light Motion to Adjust Interim Increase, filed March 27, 2018, Exhibit 9. However, this amortization base inadvertently excluded reclassifications recorded at December 31, 2017 between the 2017 unprotected plant 283 excess net regulatory liability and the portion of ASC 740 regulatory assets/liabilities offsetting the related excess deferred income taxes. Please refer to HELCO 2019 Test Year Rate Case, Docket No. 2018-0368, CA-IR-70 for the detailed explanation and required reclassification.

Note 2: Amortization began 5/1/2018.

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF DEPRECIATION & AMORTIZATION RAM ADJUSTMENT

Line No.	NARUC Account	Recorded Depreciable/Amort. Balance (Note 2)	Adjustments (Note 3)	Adjusted Depreciable/Amort. Balance	PUC Approved Accrual Rate in Dkt No. 2009-0321	Annual Accrual
	(a)	(b)	(c)	(d)	(e)	(f)
1	**Plant Accounts**					
2	311	$ 18,580,389		$ 18,580,389	0.02900	$ 538,831
3	312	70,585,608	(1,680,000)	68,905,608	0.03080	2,122,293
4	314	48,549,063		48,549,063	0.02540	1,233,146
5	315	9,926,459		9,926,459	0.03350	332,536
6	Tot - Steam	147,641,520	(1,680,000)	145,961,520	0.02896	4,226,808
7						
8	331	117,720		117,720	0.00940	1,107
9	332	6,211,000		6,211,000	0.02030	126,083
10	333	2,091,309		2,091,309	0.02130	44,545
11	334	774,630		774,630	0.00620	4,803
12	336	121,311		121,311	0.00000	-
13	Tot - Hydro	9,315,969	-	9,315,969	0.01895	176,537
14						
15	341	24,728,472		24,728,472	0.02640	652,832
16	342	13,136,399		13,136,399	0.01990	261,414
17	343	69,597,123		69,597,123	0.02220	1,545,056
18	344	54,181,904		54,181,904	0.01910	1,034,874
19	345	7,919,237		7,919,237	0.01710	135,419
20	Tot - Other Prod	169,563,135	-	169,563,135	0.02141	3,629,595
21						
22	Tot - Prod	326,520,624	(1,680,000)	324,840,624		8,032,941
23						
24	350.1	3,505,139		3,505,139	0.01460	51,175
25	352	4,553,638		4,553,638	0.00890	40,527
26	353	65,561,840		65,561,840	0.01980	1,298,124
27	354	60,041		60,041	0.02120	1,273
28	355	66,493,564		66,493,564	0.01750	1,163,637
29	356	46,097,852		46,097,852	0.04430	2,042,135
30	357	305,800		305,800	0.00000	-
31	358	678,423		678,423	0.00180	1,221
32	359	128,935		128,935	0.01350	1,741
33	Tot - Transm	187,385,232	-	187,385,232	0.02455	4,599,834
34						
35	360.1	675,771		675,771	0.01990	13,448
36	361	3,927,549		3,927,549	0.01600	62,841
37	362	73,903,383		73,903,383	0.01820	1,345,042
38	363	311,321		311,321	0.03960	12,328
39	364	133,439,423	(734)	133,438,689	0.03780	5,043,982
40	365	101,035,790	(1,428)	101,034,362	0.03400	3,435,168
41	366	34,569,685		34,569,685	0.02870	992,150
42	367	104,592,330		104,592,330	0.04080	4,267,367
43	368	96,928,091	(22,601)	96,905,491	0.06870	6,657,407
44	369.1	38,968,378		38,968,378	0.03470	1,352,203
45	369.2	29,339,581		29,339,581	0.02850	836,178
46	370	24,634,583		24,634,583	0.04840	1,192,314
47	Tot - Distr	642,325,886	(24,763)	642,301,123	0.03925	25,210,428
48						
49	Tot - T & D	829,711,118	(24,763)	829,686,355		29,810,262
50						
51	390	22,414,014		22,414,014	0.01290	289,141
52	Tot - General	22,414,014	-	22,414,014	0.01290	289,141
53						
54	Sub-Total	1,178,645,756	(1,704,763)	1,176,940,994		38,132,344
55						
56	390.2 (Kanoelehua)	793,494		793,494	0.01540	12,220
57	Tot - LH Impr	793,494	-	793,494	0.01540	12,220
58						
59	392.1	7,540,415		7,540,415	0.15120	1,140,111
60	392.2	17,609,065		17,609,065	0.02720	478,967
61	Tot - Vehicles	25,149,480	-	25,149,480	0.06438	1,619,078
62						
63						
64	Utility Total Depreciation	$ 1,204,588,731	$ (1,704,763)	$ 1,202,883,968	0.03306	**$ 39,763,642**

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF DEPRECIATION & AMORTIZATION RAM ADJUSTMENT

Line No.	NARUC Account	Recorded Depreciable/Amort. Balance (Note 2)	Adjustments (Note 3)	Adjusted Depreciable/Amort. Balance	PUC Approved Accrual Rate in Dkt No. 2009-0321	Annual Accrual	
	(a)	(b)	(c)	(d)	(e)	(f)	
65	**Amortization Amounts**						
66							
67	316	$ 1,940,004		$ 1,940,004	0.05000	$ 97,000	
68	Tot - Steam	1,940,004	-	1,940,004	0.05000	97,000	
69							
70	335	132,698		132,698	0.05000	6,635	
71	Tot - Hydro	132,698	-	132,698	0.05000	6,635	
72							
73	346	3,439,497		3,439,497	0.05000	171,975	
74	Tot - Other Prod	3,439,497	-	3,439,497	0.05000	171,975	
75							
76	Tot - Prod	5,512,199	-	5,512,199	0.05000	275,610	
77							
78	391.1	2,415,799		2,415,799	0.20000	483,160	
79	391.2	605,254		605,254	0.10000	60,525	
80	391.3	700,948		700,948	0.06670	46,753	
81	393	831,088		831,088	0.04000	33,244	
82	394	12,255,662		12,255,662	0.04000	490,226	
83	395	291,059		291,059	0.06670	19,414	
84	396	39,008		39,008	0.05560	2,169	
85	397	27,955,170		27,955,170	0.06670	1,864,610	
86	398	4,357,929		4,357,929	0.06670	290,674	
87	Tot - General	$ 49,451,916	$ -	$ 49,451,916	0.06654	$ 3,290,775	
88	Utility Total Amortization	$ 54,964,115	$ -	$ 54,964,115	0.06489	**$ 3,566,385**	
89	TOTAL RAM DEPRECIATION / AMORTIZATION				Line 64 + Line 88	**$ 43,330,027**	*To Sch D1*
90	LESS: Vehicle Depreciation (A/C 392 above)				Line 61	$ (1,619,078)	
91	LESS: ADIT Excess Amortization				Schedule D5	$ (1,498,215)	
92	LESS: Depreciation & Amortization in Current Revenues				Note 1	$ (37,271,303)	
93							
94	RAM Adjustment for Depreciation & Amortization					$ 2,941,430	
95	RAM Adjustment for CIAC Amortization				Note 4	$ -	
96	Total RAM Adjustment for Depreciation & Amortization					**$ 2,941,430**	
97	Times: Factor for Revenue Taxes				Schedule C Line 5	1.0975	
98							
99	RAM DEPRECIATION & AMORTIZATION				Line 96 x Line 97	**$ 3,228,220**	*To Sch A1*

Note 1: Depreciation & Amortization in Current Revenues*:

		2016 Test Year
Total Depreciation		$ 42,106,000
LESS: Vehicle Depreciation (A/C 392)		(1,505,000)
LESS: Amortization of ADIT Excess Amortization	From Sch E, Note 1	(97,697)
Total Depreciation in Current Revenues		40,503,303
ADD: CIAC Amortization	Note 4	(3,232,000)
Total Depreciation and Amortization in Current Revenues		$ 37,271,303
		To Line 92

*See Hawaii Electric Light Company, Inc. Docket No. 2015-0170 HELCO-1601; Revision to Exhibits in Motion to Adjust Interim Increase, Exhibit 3D, page 1 of 13, filed April 10, 2018 and PUC Order No. 35419, Granting Motion to Adjust Interim Increase, Exhibit A, page 1 of 4, filed April 24, 2018. Approved in Final Decision and Order No. 35559, filed June 29, 2018.

Note 2:

Utility Total Depreciable Plant Balance	Line 64	$ 1,204,588,731
Utility Total Amortizable Plant Balance	Line 88	54,964,115
Total Utility Depreciation and Amortization Plant Balance		$ 1,259,552,846
Total Utility Plant in Service	RONE28	$ 1,265,149,706
Less: Land	(i)	(5,596,859)
Total Depreciable Plant in Service		$ 1,259,552,846

SOURCE:
(i): Accounting records.

Note 3:

ARO Assets included in Depreciable Plant	GL# 10100001	$ (1,702,601)
Unitization Adjustment	Line 39 + 40	(2,162)
		$ (1,704,763)

Note 4: Effective Oct 2018, the Company reclassified CIAC to Plant in Service or CWIP consistent with FERC guidelines. Amounts shown in this Schedule are net of CIAC.

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
2018 PERFORMANCE INCENTIVE MECHANISMS

	2018 Annual Total *	2018 Target **	Variance	Deadband **	Maximum $ **	(Penalty)/ Reward Amount
	(a)	(b)	(c)=(a)-(b)	(d)	(e)	1.0 * (((b - a) / d) * e + e)
Service Quality:						
Normalized T&D SAIFI	1.615	1.396	0.219	0.247	$ 546,017	$ -
Normalized T&D SAIDI	209.14	137.74	71.396	24.74	$ 546,017	$ (546,017)
Call Center Performance (Excludes Blocked Calls)	83.60%	85.83%	-2.23%	3.00%	$ 218,407	$ -
Phase 1 Renewable Energy PIM First Allocation ***						$ 530,582
					Total	**$ (15,435)**
						To Sch A

Notes:
* See HELCO-WP-M-002
** See HELCO-WP-M-001
*** See HELCO-WP-M-004

Hawaiian Electric Company - Transmittal 19-01 RBA Provision (includes West Loch)
Summary of Consumer Advocate Statement of Position Adjustments

Line No.	Description	Template Reference	RBA Revenue Adj. Impact
1	Continue RBA Interest Calculation Net of Tax	Schedule B	$ (41,780)
2	Commence Estimated ARAM Excess ADIT Amortization	Schedule D5	$ (4,339,830)
3	Enforce Existing Reliability PIM Terms	Schedule M	$ (1,323,309)
4	Joint Pole Revenues	Schedule A1	$ (3,300,821)

HAWAIIAN ELECTRIC COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF 2019 REVENUE BALANCING ACCOUNT RATE ADJUSTMENT

Line No.	that/ Description (a)	Reference (b)	Amount (c)	6/1/2019 Rate Amount (d)	6/1/2018	Incremental
	RECONCILIATION OF RBA BALANCE:					
1	RBA Prior calendar year-end balance	Schedule B	$ 37,331,603			
1a	OBF Program Implementation Cost Recovery - Year 1 of 2	Schedule N	$ 768,575			
			$ 38,100,178			
2	Revenue Tax Factor	Schedule C	1.0975			
3	Revenue for RBA Balance			$ 41,814,945		
	RATE ADJUSTMENT MECHANISM "RAM" AMOUNT:					
4	Total RAM Revenue Adjustment Allowed (Note 2)	Schedule A1		$ 20,305,036		
5	EARNINGS SHARING REVENUE CREDITS - 2019 ROE:	Schedule H		$ -		
6	PERFORMANCE INCENTIVE MECHANISM REWARD (PENALTY)	Schedule M		$ (1,269,311)		
7	2017 TEST YEAR RATE CASE FINAL D&O REFUND	Note (3)		$ (48,000)		
8	PUC-ORDERED MAJOR OR BASELINE CAPITAL PROJECTS CREDITS	Schedule I		$ -		
9	TOTAL RBA REVENUE ADJUSTMENT	Sum Col. (d)		$ 60,802,670		
10	GWH SALES VOLUME ESTIMATE JUNE 2019 - MAY 2020	HECO-WP-A-001		6,489.900		
11	RBA RATE ADJUSTMENT - cents per kWh	Note (1)		**0.9369**	**1.0350**	**(0.0981)**
12	MONTHLY BILL IMPACT @ 600 KWH			**$ 5.62**	**$ 6.21**	**$ (0.59)**
	MONTHLY BILL IMPACT @ 500 KWH			**$ 4.68**	**$ 5.18**	**$ (0.49)**

Note (1): 2019 RBA Rate Adjustment Breakdown

	Col. (d)	Rate Adjustment cents per kWh	Percentage Share
RBA Balance	$ 41,814,945	0.64430800	68.7716%
RAM Amount	$ 20,305,036	0.31287132	33.3950%
Earnings Sharing Revenue Credits	$ -	0.00000000	0.0000%
Performance Incentive Mechanism Reward (Penalty)	$ (1,269,311)	-0.01955825	-2.0876%
2017 Test Year Rate Case Final D&O Refund	$ (48,000)	-0.00073961	-0.0789%
Major or Baseline Capital Projects Credits	$ -	0.00000000	0.0000%
	$ 60,802,670	0.93688147	100.0000%

Note (2): Total RAM Revenue Adjustment Allowed is the sum of the RAM Cap + Exceptional and Other Projects. See Order No. 32735, filed March 31, 2015, paragraph 107, page 94, which states that the Total RAM Revenue Adjustment is to be comprised of the RAM Cap plus recovery of Exceptional And Other Matters.

Note (3): Docket No. 2016-0328 - Hawaiian Electric 2017 Test Year Rate Case Hawaiian Electric Proposed PIM Tariff Revisions and Refund Calculation, Exhibit 4, filed July 23, 2018, and approved by the Commission in Order No. 35661, filed August 30, 2018.

HAWAIIAN ELECTRIC COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF TOTAL RAM REVENUE ADJUSTMENT ALLOWED

Line No.	Description (a)	Reference (b)	Amount (c)
	RAM REVENUE ADJUSTMENT DETERMINED ACCORDING TO EXISTING TARIFFS AND PROCEDURES		
1	O&M RAM	Schedule C	$ 8,622,195
2	Rate Base RAM - Return on Investment	Schedule D	$ 13,498,175
3	Depreciation & Amortization RAM Expense	Schedule E	$ 3,857,417
4	Joint Pole Revenues	Note 3	(5,672,751)
5	Total RAM Revenue Adjustment		**$ 20,305,036**
	RAM REVENUE ADJUSTMENT CAP		
6	RAM Cap for 2019 RAM Revenue Adjustment	Schedule J	$ 27,945,687
7	Plus: Exceptional and Other Matters	Schedule K	$ -
8	2019 Cap - Total RAM Revenue Adjustment (Note 2)		**$ 27,945,687**
9	**Total RAM Revenue Adjustment Allowed** (Note 1)	Lesser of Line 5 or Line 8	**$ 20,305,036**
			To Sch A

Note 1 RAM Revenue Adjustment Allowed:
See Order No. 32735, filed March 31, 2015, paragraph 106, page 94:
"The RAM Revenue Adjustment to be applied to determine effective Target Revenues will be the **lesser of** (a) the RAM Revenue Adjustment determined according to existing tariffs and procedures or (b) a RAM Revenue Adjustment Cap ("RAM Cap) to be calculated as specified."

Note 2 Total RAM Cap:
See Order No. 32735, filed March 31, 2015, paragraph 110, page 96:
"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."

Note 3 See Decision and Order No. 35768, Docket No. 2018-0075 filed October 16, 2018. Commission approved the Asset Transfer, Pole Licensing and Amended Joint Pole Agreements and the accounting and ratemaking treatment described in Exhibit E of the Application. The negotiated settlement over a ten year period for attachment fees, inclusive of revenue taxes, is $2,371,930 per year.

For ratemaking purposes, attachment and ancillary revenues received from Hawaiian Telcom and other third party attachers for use of the poles are reflected in other operating revenue and will offset any depreciation costs of transferred poles and related equipment, and the authorized return to the Companies shareholders.

HAWAIIAN ELECTRIC COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
SUMMARY OF ACCUMULATED REVENUE BALANCING ACCOUNT

Line No.	Month	Beginning Balance	Target Revenues	Recorded Adjusted Revenue	Variance to RBA	Adjustment for prior year RBA accrual	RBA Balance Before ADIT	ADIT Related to RBA Revenues	Net Ending Balance	Average Balance Subject to Interest	Interest at 1.75%/year	Ending Balance
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	Monthly RBA Balance and Activity (Monthly PUC Rpt)											
		$ 18,013,624										
1	2017 December	$ 46,306,327	$ 49,915,326	$ 43,730,598	$ 6,184,728	$ (3,302,057)				29,169,047	$ 42,538	$ 49,231,536
2	December - Revised - Note (2)						$ 49,231,536	(12,678,046)	$ 36,553,490			
3												
4	2018 January	$ 49,231,536	$ 48,948,443	$ 43,871,232	$ 5,077,211	$ (3,369,650)	$ 50,939,097	(13,117,775)	$ 37,821,322	$ 37,187,406	$ 54,232	$ 50,993,329
5	February	$ 50,993,329	$ 45,953,154	$ 40,430,219	$ 5,522,935	$ (4,185,853)	$ 52,330,411	(13,476,064)	$ 38,854,346	$ 38,364,950	$ 55,949	$ 52,386,360
6	March	$ 52,386,360	$ 51,603,222	$ 46,365,780	$ 5,237,442	$ (3,345,112)	$ 54,278,690	(13,977,783)	$ 40,300,907	$ 39,605,601	$ 57,758	$ 54,336,448
7	April	$ 54,336,448	$ 49,061,587	$ 45,638,864	$ 3,422,723	$ (3,430,466)	$ 54,328,705	(13,990,663)	$ 40,338,042	$ 40,348,354	$ 58,841	$ 54,387,546
8	May	$ 54,387,546	$ 50,396,658	$ 43,802,261	$ 6,594,397	$ (3,440,553)	$ 57,541,209	(14,817,943)	$ 42,723,266	$ 41,559,984	$ 60,608	$ 57,601,817
9	June	$ 57,601,817	$ 49,434,694	$ 46,747,403	$ 2,687,291	$ (4,129,862)	$ 56,159,246	(14,462,061)	$ 41,697,184	$ 42,240,529	$ 61,601	$ 56,220,847
10	July	$ 56,220,847	$ 53,817,091	$ 50,144,604	$ 3,672,487	$ (4,451,628)	$ 55,441,706	(14,277,281)	$ 41,164,424	$ 41,461,605	$ 60,465	$ 55,502,171
11	August	$ 55,502,171	$ 55,301,701	$ 50,148,289	$ 5,153,412	$ (4,546,694)	$ 56,108,889	(14,449,094)	$ 41,659,795	$ 41,442,342	$ 60,437	$ 56,169,326
12	September	$ 56,169,326	$ 53,507,798	$ 54,077,963	$ (570,165)	$ (4,315,858)	$ 51,283,303	(13,206,414)	$ 38,076,888	$ 39,898,560	$ 58,185	$ 51,341,488
13	October	$ 51,341,488	$ 54,683,113	$ 56,214,832	$ (1,531,719)	$ (4,543,142)	$ 45,266,627	(11,657,007)	$ 33,609,620	$ 35,872,346	$ 52,314	$ 45,318,941
14	November	$ 45,318,941	$ 51,095,307	$ 51,711,892	$ (616,585)	$ (4,111,538)	$ 40,590,818	(10,452,899)	$ 30,137,919	$ 31,899,926	$ 46,521	$ 40,637,339
15	Oct/Nov True-Up		$ 305,574		$ 305,574		$ 305,574				$ 453	$ 40,943,366
16	December	$ 40,943,366	$ 51,366,986	$ 51,070,061	$ 296,925	$ (3,951,109)	$ 37,289,182	(9,602,665)	$ 27,686,517	$ 29,088,492	$ 42,421	$ 37,331,603
17			$ 615,475,328	$ 580,223,400	$ 35,251,928	$ (47,821,465)					$ 669,785	
18												
19												
20	2019 January	$ -	$ 51,648,125	$ -	$ 51,648,125	$ -	$ -	$ -	$ -	$ -	$ -	$ -
21	February	$ -	$ 47,864,379	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
22	March	$ -	$ 51,080,563	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
23	April	$ -	$ 50,323,814	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
24	May	$ -	$ 52,972,435	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
24a	OBF Recovery	$ 1,537,150										
25	June	$ -	$ 51,332,799	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
26	July	$ -	$ 55,340,192	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
27	August	$ -	$ 56,866,818	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
28	September	$ -	$ 55,022,145	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
29	October	$ -	$ 56,230,724	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
30	November	$ -	$ 52,541,378	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
31	December	$ -	$ 52,668,597	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Sources of Data:		Sch. B1 Note (5)	Sch B2	Cols (c)-(d)	Note (1)	Cols (b)+(e)+(f) Note (4)	Note (2)	Note (2) & (3) Cols (g)+(h)	Curr Col (i)+ Prior Col (i)+(k) /2: Note (4)		Cols (g)+(k)

Note (1):
Amounts represent recovery of prior years' RBA balance through the RBA rate adjustment effective June 1, 2017 for the period June 2017 through May 2018 and June 1, 2018 for the period June 2018 through May 2019.

Note (2):
On December 22, 2017, the 2017 Tax Cuts & Jobs Act was signed into law to be effective for tax years ending after December 31, 2017. In accordance with IRC §451(b), "...the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in... an applicable financial statement of the taxpayer...". This change would supersede the RBA tax accounting treatment (deferred until received in rates) the IRS approved for the Companies on April 21, 2014 and adopted in Decision & Order No. 31908 on Schedule A of the Decoupling Investigation, issued in Docket No. 2013-0141 on February 7, 2014.

IRC §451(b) would eliminate the book tax temporary difference for which ADIT was provided and accordingly, would reduce to zero the tax adjustment to the basis for calculating RBA interest. This change imposed by IRC §451(b) should allow for the deferred RBA income (on which the RBA ADIT balance at December 31, 2017 is based) to be amortized into taxable income over the next 4 years (straight-line basis) with the effect of reducing the tax adjustment balance down to zero by the end of 2021.

RBA Regulatory Asset Balance at 12/31/2017	49,231,536
Composite Federal & State Income Tax Rate	25.75%
RBA ADIT Balance at 12/31/2017	12,678,046
Years	4
Annual amortization for years 2018 through 2021	3,169,511
Monthly ADIT amortization	264,126

Note (3):
In April 2018, the Companies adjusted the March 31, 2018 RBA balance for the change in accounting methodology identified in Note (2). The January to March 2018 RBA balance subject to interest was recalculated and the RBA Balance was trued-up in April 2018 for $4,510.

Note (4):
In May 2018, the Company identified an inadvertent transposition error in the DSM adjustment ($67,965) used to derive Recorded Adjusted Revenues. May 2018 Recorded Adjusted Revenues includes a true-up of -$135,930 (-$123,853 net of revenue taxes) to properly state the RBA Balance as of May 2018. The May 2018 balance includes an adjustment of -$181 related to interest resulting from this correction.

Note (5):
In December 2018, the Company recorded a RBA Target true-up adjustment resulting from the Schofield Generating Station MPIR Order No. 35953, issued 12/14/18 in Docket No. 2017-0213, effective October 1, 2018. The RBA balance includes an adjustment of $306,027 related to the incremental Target Revenues ($305,574) and related interest ($453) to properly state the RBA balance as of December 2018.

HAWAIIAN ELECTRIC COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF RATE BASE RAM ADJUSTMENT - CHANGE IN RATE BASE
$ in thousands

		HECO 2017 Test Year Rate Base (Note 2)		HECO 2019 RAM Rate Base			
Line No.	Description	Beg. Balance 12/31/2017	Budgeted Balance 12/31/2017	Adjusted Recorded at 12/31/2018	RAM Projected Amounts	Estimated at 12/31/2019	
	(a)	(b)	(c)	(d) (Note 1)	(e) See Detail Below	(f)	
1	Net Cost of Plant in Service, Net of CIAC	$ 2,595,452	$ 2,770,695	$ 2,457,336	$ 129,095	$ 2,586,431	(Note 3)
2	Property Held for Future Use	-	-	-	-	-	
3	Fuel Inventory	46,200	46,200	These Elements of Rate Base are Not Updated for RAM Purposes			
4	Materials & Supplies Inventories	28,427	28,427				
5	Unamort Net ASC 740 Reg Asset	70,144	74,887				
6	Unamort EOTP Reg Asset	444	89				
7	CIP CT-1 Reg Asset	2,306	1,352				
8	Unamort Sys Dev Costs	15,932	13,496				(Note 5)
9	RO Pipeline Reg Asset	4,958	4,842				
10	Pension Tracking	97,620	113,828				
11	Contrib in Excess of NPPC	hello	6,470				
12	Total Additions	$ 2,861,483	$ 3,060,286	$ 2,735,147	$ 129,095	$ 2,864,242	
13	Unamortized CIAC/CIAC in CWIP	$ (347,826)	$ (395,134)	$ (30,110)	$ -	$ (30,110)	(Note 3)
13a	Developer Advances	-	-	$ (21,345)	$ -	$ (21,345)	(Note 3)
14	Customer Advances	(3,581)	(3,925)	Not Updated			(Note 3)
15	Customer Deposits	(12,101)	(12,005)				
16	Accumulated Def Income Taxes	(520,643)	(333,360)	(281,810)	(7,825)	(289,635)	(Note 4)
17	ADIT Excess Reg Liability	-	(203,950)	(277,406)	10,381	(267,025)	See Schedule D5
18	Unamortized State ITC (Gross)	(56,323)	(54,903)	Not Updated			
19	Unamortized Gain on Sale	(248)	(182)				
20	Pension Reg Liability	-	-				
21	OPEB Reg Liability	(2,817)	(2,331)				
22	Total Deductions	$ (943,539)	$ (1,005,790)	$ (684,879)	$ 2,556	$ (682,323)	
23	Working Cash	3,904	3,904	3,904	Not Updated	3,904	
24	Rate Base at Proposed Rates	$ 1,921,848	$ 2,058,400	$ 2,054,172		$ 2,185,823	
25	Average Rate Base		$ 1,990,124			$ 2,119,997	
26	**Change in Rate Base**					**$ 129,873** To Schedule D	

Line No.	Column (e) Projected Changes to Rate Base:	Reference	Amount $000		
28	Plant - Baseline Capital Project Additions, Net of CIAC	Schedule D2	200,583		
29	Major Project Additions, Net of CIAC	Schedule D3	69,023		
30	Accumulated Depreciation/Amortization Change	Schedule E	(140,510)		
31	Net Plant	Sum: Lines 28-30	129,095		
32	ADIT - Baseline and Major Capital Projects	Schedule F	(7,825)		
33	Excess ADIT Reg Liability Amortization	Schedule D5	12,709	Use 7/12 Year ARAM	10,381

Line 27 is the header row "Column (e) Projected Changes to Rate Base:".

Footnotes:

1 Amounts are recorded, except for the following adjustments:

		Plant in Service	Acc. Depr.	Schedule D4 ADIT	
[A]	Unadjusted Balance	$ 4,496,539	$ (1,565,762)	$ (283,658)	
	Add:				
[A]	RWIP		41,901		
[A]	Asset Retirement Obligation		(4,780)		
[A]	Reg Liab-Cost of Removal (net salvage)		(356,926)		
	Tenant Improvement Allowance (Sch E)	(14,132)	9,824		
	Unbilled Pole Credits (HECO-WP-H-001)	(4,435)			
	Major Project Adjustments:	**HECO-WP-D2-001**	**HECO-WP-E-001**	**HECO-WP-D4-002**	
	ERP EAM Hardware	(14)	3	2	
	Koolau-Wailupe #1 Str 30 P9 Replace	(142)	4	14	
	Total Adjustments	$ (156)	$ 7	$ 16	**Schedule D4**
	Major Project Interim Recovery Adjustments:	**HECO-WP-D2-001**	**HECO-WP-E-001**	**HECO-WP-D4-003**	
	Schofield Generation Station	(144,744)	-	1,832	**Schedule D4**
	Total Adjustments	$ (144,744)	$ -	$ 1,832	
	Adjusted Balance	$ 4,333,072	$ (1,875,736)	$ (281,810)	

2 See Final Decision and Order No. 35545, For Approval of General Rate Case and Revised Schedules/Rules, filed on June 22, 2018, Exhibit B, Page 1 of 2. Revised for presentation purposes only to properly reflect the Unamortized Net ASC 740 Reg Asset, ADIT, and ADIT Excess Reg Liability balances. No change to Total Average Rate Base.

3 Per PowerPlan extract. Effective October 2018, the Company reclassified CIAC to Plant in Service or CWIP consistent with FERC guidelines. In 2018, CIAC has been netted with either Plant in Service or CWIP and Developer Advances (Cash CIAC received from developers, subject to refund) which has been included as a reduction to rate base. See further discussion of the Company's treatment of CIAC at HECO-WP-D1-001.

4 As a result of the 2017 Tax Reform Act, Regulatory Liability accounts were created and recorded as of December 31, 2017 to isolate the 2017 excess accumulated deferred taxes resulting from the lower federal tax rate. The bifurcated Regulatory Liabilities are included as a reduction to Rate Base. See further discussion at Schedule F.

5 HECO 2017 Test Year Rate Base includes CIS deferred costs in Unamortized System Development Costs. See detail in November 15, 2017, Stipulated Settlement Letter, HECO T-17, Attachment 1, Page 2.

[A] SOURCE: Hawaiian Electric Company, Inc. Monthly Financial Report - December 2018, filed February 28, 2019.

HAWAIIAN ELECTRIC COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF ADJUSTED RECORDED EXCESS ADIT REGULATORY LIABILITY

Line	NARUC Account	Reference	DR/(CR) Balance at 12/31/17	DR/(CR) Adjustments	DR/(CR) Amortization	DR/(CR) Balance at 12/31/18	Life	Amortization	Est Bal at 12/31/19
	(a)	(b)	(c)		(d)	(e) = (c) + (d)	(f)	(g)	(h) = (e) + (g)
1	Plant 282 - protected		(215,702,497)	(7,803,210)		(223,505,707)	40	5,587,643	(220,246,249)
2	Plant 283 - unprotected		(35,065,867)		1,668,881	(33,396,986)	15	2,337,723	(31,059,263)
3	Nonplant 283 - unprotected		(23,918,454)		3,415,029	(20,503,425)	5	4,783,679	(15,719,746)
4	Total Excess ADIT Regulatory Liability		(274,686,818)	(7,803,210)	5,083,910	(277,406,118)		12,709,045	(267,025,258)
			Note 1			To Sch D1		To Sch D1 To Sch E To Sch F	To Sch D1

Reconciliation of 12/31/18 Balance:

Regulatory Liability in GL	GL#25400023/24		(278,155,753)
Regulatory Asset in GL	GL#18673900	34,112,667	
2018 Amortization		587,116	
			34,699,783
			(243,455,970)
Add: FAS 109	Note 1		(33,950,008)
Total Excess ADIT			(277,405,978)
Total Excess ADIT	Line 4		(277,406,118)
Remaining Difference			140

Note 1: The 12/31/17 balances represent the amortization base presented in Docket 2016-0328 Hawaiian Electric's 2017 Test Year Rate Case Revised Attachment to the Parties' Stipulated Settlement on Remaining Issues, Attachment 2A, filed March 8, 2018. However, this amortization base inadvertently excluded reclassifications recorded at December 31, 2017 between the 2017 unprotected plant 283 excess net regulatory liability and the portion of ASC 740 regulatory assets/liabilities offsetting the related excess deferred income taxes.

Note 2: Amortization began 4/14/2018.

HAWAIIAN ELECTRIC COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF DEPRECIATION & AMORTIZATION RAM ADJUSTMENT

Line No.	FERC Account	Recorded Depreciable/Amort. Balance (Footnote 3)	Adjustments (Footnote 1)	Adjusted Depreciable/Amort. Balance	PUC Approved Accrual Rate	Annual Accrual
	(a)	(b)	(c)	(d)	(e)	(f)
1	**Depreciable Plant**					
2	311	107,116,270		107,116,270	0.01600	1,713,860
3	312	407,080,257	(3,423,000)	403,657,257	0.02030	8,194,242
4	314	194,394,996		194,394,996	0.01540	2,993,683
5	315	83,448,693		83,448,693	0.02430	2,027,803
6	Tot - Steam	792,040,216	(3,423,000)	788,617,216	0.01885	14,929,589
7						
8	341	38,255,922		38,255,922	0.00770	294,571
9	342	17,647,714		17,647,714	0.02580	455,311
10	343	212,348,035	(142,147,612)	70,200,423	0.03260	2,288,534
11	344	32,411,015		32,411,015	0.01010	327,351
12	345	34,684,516		34,684,516	0.02510	870,581
13	Tot - Gas Turb	335,347,202	(142,147,612)	193,199,590	0.01263	4,236,348
14						
15	Tot - Prod	1,127,387,418	(145,570,612)	981,816,806		19,165,937
16						
17	3501	3,033,447		3,033,447	-	-
18	352	41,371,948	(2,003,490)	39,368,458	0.01600	629,895
19	353	316,099,319	(352,190)	315,747,129	0.01860	5,872,897
20	354	15,336,208		15,336,208	0.01480	226,976
21	355	377,095,780		377,095,780	0.03240	12,217,903
22	356	184,909,083	(141,971)	184,767,112	0.03270	6,041,885
23	357	60,113,518		60,113,518	0.01590	955,805
24	358	66,198,742		66,198,742	0.01730	1,145,238
25	359	3,235,054		3,235,054	0.01490	48,202
26	Tot - Transm	1,067,393,099	(2,497,651)	1,064,895,448	0.02543	27,138,801
27						
28	3601	2,599,051		2,599,051	0.02340	60,818
29	361	26,265,151		26,265,151	0.01080	283,664
30	362	273,453,197		273,453,197	0.02020	5,523,755
31	363	2,957,666		2,957,666	0.03740	110,617
32	364	245,168,525		245,168,525	0.03390	8,311,213
33	365	105,897,935		105,897,935	0.04190	4,437,123
34	366	270,101,616		270,101,616	0.02190	5,915,225
35	367	405,492,451		405,492,451	0.04980	20,193,524
36	368	220,837,260		220,837,260	0.05200	11,483,538
37	369.1	59,534,914		59,534,914	0.05250	3,125,583
38	369.2	174,898,002		174,898,002	0.04070	7,118,349
39	370	40,383,030		40,383,030	0.02660	1,074,189
40	Tot - Distr	1,827,588,798	-	1,827,588,798	0.03701	67,637,596
41						
42	Tot - T & D	2,894,981,897	(2,497,651)	2,892,484,246		94,776,398
43						
44	390	67,940,630		67,940,630	0.02450	1,664,545
45	Tot - General	67,940,630	-	67,940,630	0.02450	1,664,545
46						
47	Sub-Total	4,090,309,945	(148,068,263)	3,942,241,682		115,606,880
48						
49	3902 (King)	8,011,075		8,011,075	0.03010	241,114
50	3902 (CPP)	2,115,809		2,115,809	0.00417	8,814
51	3902 (Waterhouse)	1,517,450		1,517,450	0.00000	-
52	3902 (Hon Cl)	523,097		523,097	0.07824	40,929
53	3902 (ASB)	1,463,127		1,463,127	0.06133	89,738
54	3902 (Shinco)	939,475		939,475	0.00000	-
55	3902 (PPP)	372,940		372,940	0.11111	41,438
	3902 (Pauahi)	50,376		50,376	0.33333	16,792
56	3902 (Tenant Allowance)	14,131,757	(14,131,757)	-	-	-
57	Tot- LH Impr	29,125,106	(14,131,757)	14,993,349		438,824
58						
59	392	59,063,238		59,063,238	0.06130	3,620,576
60						
61	Utility Total Depreciation	4,178,498,289	(162,200,020)	4,016,298,269	0.02864	**119,666,281**

Line No.	FERC Account	Recorded Depreciable/Amort. Balance (Footnote 3)	Adjustments (Footnote 1)	Adjusted Depreciable/Amort. Balance	PUC Approved Accrual Rate	Annual Accrual
	(a)	(b)	(c)	(d)	(e)	(f)
61	**Amortizable Plant**					
62	316	26,291,658		26,291,658	0.05000	1,314,583
63	Tot - Steam	26,291,658	-	26,291,658	0.05000	1,314,583
64						
65	346	20,326,815		20,326,815	0.05000	1,016,341
66	Tot - Gas Turb	20,326,815	-	20,326,815	0.05000	1,016,341
67						
68	Tot - Prod	46,618,473	-	46,618,473	0.05000	2,330,924
69						
70	3911	30,764,654	(14,146)	30,750,508	0.20000	6,150,102
71	3912	3,172,052		3,172,052	0.10000	317,205
72	3913	16,599,312		16,599,312	0.06670	1,107,174
73	393	1,478,752		1,478,752	0.04000	59,150
74	394	39,001,211		39,001,211	0.04000	1,560,048
75	395	879,317		879,317	0.06670	58,650
76	396	4,479		4,479	0.05560	249
77	397	130,589,670	(240,250)	130,349,420	0.06670	8,694,306
78	398	8,483,472		8,483,472	0.06670	565,848
79	Tot - General	230,972,919	(254,396)	230,718,523	0.08015	18,512,733
80						
81						
82						
83	Utility Total Amortization	277,591,392	(254,396)	277,336,996	0.07509	**$ 20,843,656**
84						
85	TOTAL RAM DEPRECIATION / AMORTIZATION				Line 61 + Line 83	**$ 140,509,937**
86	LESS: Vehicle Depreciation (A/C 392 above)				Line 59	**$ (3,620,576)**
87	LESS: ADIT Excess Amortization				Schedule D5	**(12,709,045)**
88	LESS: Depreciation & Amortization in Current Revenues				Footnote 2	**$ (120,665,585)**
89						
90	RAM Adjustment for Depreciation & Amortization					**$ 3,514,730**
91	RAM Adjustment for CIAC Amortization				Note 5	**$ -**
92	Total RAM Adjustment for Depreciation & Amortization					**$ 3,514,730**
93	Times: Factor for Revenue Taxes				Schedule C Line 5	1.0975
94						
95	RAM DEPRECIATION & AMORTIZATION					**$ 3,857,417**
						To Sch A1

Footnotes:

1 Amounts are recorded (in $000s), except for the following adjustments (see HECO-WP-D2-001):

		Plant in Service From D1	
ERP EAM Hardware	HECO-WP-D2-001	$ (14)	**Linked from Sch D1**
Koolau-Wailupe #1 Str 30 P9 Replace		(142)	
MPIR - Schofield Generating Station		(144,744)	
Tenant Improvement Allowance (see Footnote 4)		(14,132)	
ARO Assets included in Depreciable Plant	GL# 10100001	(3,423)	
Total		$ (162,455)	

2 Depreciation & Amortization in Current Revenues*:

		Depr/Amort Expense	
Total Depreciation		$ 139,686,000	
LESS: Vehicle Depreciation (A/C 392)		(3,590,000)	
LESS: Amortization of Excess ADIT		(7,121,415)	
Total Depreciation in Current Revenues		$ 128,974,585	
ADD: CIAC Amortization	Note 5	(8,309,000)	
Total Depreciation & Amortization in Current Revenues		120,665,585	To Line 88

*See Order No. 35335, in Docket No. 2016-0328, For Approval of General Rate Case and Revised Schedules/Rules, filed on March 9, 2018, in which the Commission accepted the Parties' Stipulated Settlement on Remaining Issues filed March 5, 2018, HECO T-25, Attachment 1, Page 1 and the Revised Attachment to the Parties Stipulated Settlement on Remaining Issues, filed March 8, 2018, HECO T-26, Attachment 2A, Page 1. Approved in Final Decision and Order No. 35545, filed June 22, 2018.

3 Per Accounting records, does not include land amounting to $40,449,426 as of December 31, 2018.

4 Amount represents tenant improvement allowances paid by the lessors and excluded from the RAM calculation.

5 Effective October 2018, the Company reclassified CIAC to Plant in Service or CWIP consistent with FERC guidelines. Amounts shown in this Schedule represent balances net of CIAC.

HAWAIIAN ELECTRIC COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
2018 PERFORMANCE INCENTIVE MECHANISMS

	2018 Annual Total *	2018 Target **	Variance	Deadband **		Maximum $ **		(Penalty) / Reward Amount
	(a)	(b)	(c)=(a)-(b)	(d)		(e)		1.0 * (((b - a) / d) * e + e)
Service Quality:								
Normalized T&D SAIFI								
Without Exclusion	1.253	1.112	0.141	0.089	$	2,244,112	$	(1,306,645)
With Exclusion	1.238	1.112	0.126	0.089	$	2,244,112	$	(929,827)
Normalized T&D SAIDI								
Without Exclusion	111.94	99.10	12.84	9.033		2,244,112	$	(946,492)
With Exclusion	106.41	99.10	7.31	9.033		2,244,112	$	-
Call Center Performance (Excludes Blocked Calls)								
	83.97%	79.66%	4.31%	3.00%	$	897,645	$	391,972
Phase 1 Renewable Energy RFP PIM								
First Allocation ***							$	591,854
						Total Without Exclusion	$	(1,269,311)
						Total With Exclusion	**$**	**53,998**
								To Sch A

Notes:
Exclusion represents 25kV Proactive Work, filed in Transmittal No. 18-05, Hawaiian Electric's Letter Request for Exclusion of 25kV Splice Replacement Work from Performance Incentive Mechanism Provision's SAIDI and SAIFI 2018 Calculation, filed December 18, 2018.
* See HECO-WP-M-002
** See HECO-WP-M-001
*** See HECO-WP-M-005

Hawaii Electric Light Company - Transmittal 19-02 RBA Provision
Summary of Consumer Advocate Statement of Position Adjustments

Line No.	Description	Template Reference		RBA Revenue Adj. Impact
1	Continue RBA Interest Calculation Net of Tax	Schedule B	$	(6,168)
1a	Reduce RBA Interest Rate 9/1/17, not 7/1/18	Schedule B	$	(31,511)
2	Commence Estimated ARAM Excess ADIT Amortization	Schedule D5	$	(1,033,552)
3	Joint Pole Revenues	Schedule A1	$	(2,936,378)

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF 2019 REVENUE BALANCING ACCOUNT RATE ADJUSTMENT

Line No.	Description (a)	Reference (b)	Amount (c)	6/1/2019 Rate Amount (d)	6/1/2018	Incremental
	RECONCILIATION OF RBA BALANCE:					
1	RBA Prior calendar year-end balance	Schedule B	1,670,130			
1a	OBF Program Implementation Cost Recovery - Year 1 of 2	Schedule N	215,780			
			1,885,910			
2	Revenue Tax Factor	Schedule C	1.0975			
3	Revenue for RBA Balance			2,069,786		
	RATE ADJUSTMENT MECHANISM "RAM" AMOUNT:					
4	Total RAM Revenue Adjustment Allowed (Note 2)	Schedule A1		$ 6,142,905		
5	EARNINGS SHARING REVENUE CREDITS - 2019 ROE:	Schedule H		-		
6	PERFORMANCE INCENTIVE MECHANISM REWARD (PENALTY)	Schedule M		(15,435)		
7	2016 TEST YEAR RATE CASE FINAL D&O REFUND	HELCO-WP-H-007		(74,000)		
8	PUC-ORDERED MAJOR OR BASELINE CAPITAL PROJECTS CREDITS:	Schedule I		-		
9	TOTAL RBA REVENUE ADJUSTMENT	Sum Col. (d)		$ 8,123,256		
10	GWH SALES VOLUME ESTIMATE JUNE 2019 - MAY 2020	HELCO-WP-A-001		1,062.800		
11	RBA RATE ADJUSTMENT - cents per kWh	Note 1		**0.7643**	**1.0006**	**(0.2363)**
12	MONTHLY BILL IMPACT @ 500 KWH			**$ 3.82**	**$ 5.00**	**$ (1.18)**

Note 1: 2019 RBA Rate Adjustment Breakdown

	Col. (d)	Rate Adjustment cents per kWh	Percentage Share
RBA Balance	$ 2,069,786	0.19474840	25.4798%
RAM Amount	$ 6,142,905	0.57799256	75.6212%
Earnings Sharing Revenue Credits	$ -	0.00000000	0.0000%
Performance Incentive Mechanism Reward (Penalty)	$ (15,435)	-0.00145227	-0.1900%
2016 Test Year Rate Case Final D&O Refund	$ (74,000)	-0.00696274	-0.9110%
Major or Baseline Capital Projects Credits	$ -	0.00000000	0.0000%
	$ 8,123,256	0.76432595	100.0000%

Note 2: Total RAM Revenue Adjustment Allowed is the sum of the RAM Cap + Exceptional and Other Projects. See Order No. 32735, filed March 31, 2015, paragraph 107, page 94, which states that the Total RAM Revenue Adjustment is to be comprised of the RAM Cap plus recovery of Exceptional And Other Matters.

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF TOTAL RAM REVENUE ADJUSTMENT ALLOWED

Line No.	Description (a)	Reference (b)	Amount (c)
	RAM REVENUE ADJUSTMENT DETERMINED ACCORDING TO EXISTING TARIFFS AND PROCEDURES		
1	O&M RAM	Schedule C	$ 3,579,136
2	Rate Base RAM - Return on Investment (Note 2)	Schedule D	$ 3,649,135
3	Depreciation & Amortization RAM Expense	Schedule E	$ 3,228,220
4	Joint Pole Revenues	Note 3	$ (4,313,586)
5	Total RAM Revenue Adjustment		$ 6,142,905
	RAM REVENUE ADJUSTMENT CAP		
6	RAM Cap for 2019 RAM Revenue Adjustment	Schedule J	$ 10,112,835
7	Plus: Exceptional and Other Matters	Schedule K	-
8	2019 Cap - Total RAM Revenue Adjustment		**$ 10,112,835**
9	**Total RAM Revenue Adjustment Allowed** (Note 1)	Lesser of Line 5 or Line 9	**$ 6,142,905** ***To Sch A***

Note 1: RAM Revenue Adjustment Allowed:
See Order No. 32735, filed March 31, 2015, paragraph 106, page 94:
"The RAM Revenue Adjustment to be applied to determine effective Target Revenues will be the **lesser of** (a) the RAM Revenue Adjustment determined according to existing tariffs and procedures or (b) a RAM Revenue Adjustment Cap ("RAM Cap) to be calculated as specified."

Note 2: Total RAM Cap:
See Order No. 32735, filed March 31, 2015, paragraph 110, page 96:
"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."

Note 3: See Decision and Order No. 35768, Docket No. 2018-0075 filed October 16, 2018. Commission approved the Asset Transfer, Pole Licensing and Amended Joint Pole Agreements and the accounting and ratemaking treatment described in Exhibit E of the Application. The negotiated settlement over a ten year period for attachment fees, inclusive of revenue taxes, is $1,377,208 per year.

For ratemaking purposes, attachment and ancillary revenues received from Hawaiian Telcom and other third party attachers for use of the poles are reflected in other operating revenue and will offset depreciation costs of transferred poles and related equipment, and the authorized return to the Companies shareholders.

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
SUMMARY OF ACCUMULATED REVENUE BALANCING ACCOUNT

Line No.		Month	Beginning Balance	Target Revenues	Recorded Adjusted Revenue	Variance to RBA	Adjustment for prior year RBA accrual	RBA Balance Before ADIT	ADIT Related to RBA Revenues	Net Ending Balance	Average Balance Subject to Interest	Interest at ~~3.25%/year~~ 1.50%/year	Ending Balance
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	Monthly RBA Balance and Activity (Monthly PUC Rpt., Pg. 9A)												
1	2017	December	$ 3,128,648	$ 13,230,418	$ 12,492,192	$ 738,226	$ (253,086)				$ 2,059,477	$ 5,578	$ 3,619,366
2		December - Revised			Adjust for Prior Year Interest Recal		$ (10,606)	$ 3,608,760	$ (929,323)	$ 2,679,436			
3													
4	2018	January	$ 3,619,366	$ 13,301,362	$ 12,835,840	$ 465,522	$ (258,886)	$ 3,826,002	$ (985,267)	$ 2,840,735	$ 2,760,085	$ 3,450	$ 3,829,452
5		February	$ 3,829,452	$ 12,451,601	$ 11,560,335	$ 891,266	$ (235,377)	$ 4,485,341	$ (1,155,060)	$ 3,330,281	$ 3,087,233	$ 3,859	$ 4,489,200
6		March	$ 4,489,200	$ 13,258,795	$ 12,733,942	$ 524,853	$ (257,906)	$ 4,756,147	$ (1,224,797)	$ 3,531,350	$ 3,432,745	$ 4,291	$ 4,760,438
7		April	$ 4,760,438	$ 12,725,921	$ 12,731,188	$ (5,267)	$ (258,997)	$ 4,496,174	$ (1,157,849)	$ 3,338,325	$ 3,436,983	$ 4,296	$ 4,500,470
8		May	$ 4,500,470	$ 12,317,361	$ 12,005,643	$ 311,718	$ (257,627)	$ 4,554,561	$ (1,172,885)	$ 3,381,676	$ 3,362,148	$ 4,203	$ 4,558,764
9		June	$ 4,558,764	$ 12,249,452	$ 11,937,887	$ 311,565	$ (296,111)	$ 4,574,218	$ (1,177,947)	$ 3,396,271	$ 3,391,075	$ 4,239	$ 4,578,457
10		July	$ 4,578,457	$ 13,081,645	$ 12,872,216	$ 209,429	$ (323,761)	$ 4,464,125	$ (1,149,596)	$ 3,314,529	$ 3,357,519	$ 4,197	$ 4,468,322
11		August	$ 4,468,322	$ 13,284,767	$ 13,043,681	$ 241,086	$ (330,384)	$ 4,379,024	$ (1,127,681)	$ 3,251,343	$ 3,285,034	$ 4,106	$ 4,383,130
12		September	$ 4,383,130	$ 12,449,542	$ 12,252,488	$ 197,054	$ (308,685)	$ 4,271,499	$ (1,099,991)	$ 3,171,508	$ 3,213,478	$ 4,017	$ 4,275,516
13		October	$ 4,275,516	$ 12,957,347	$ 13,673,359	$ (716,012)	$ (323,713)	$ 3,235,791	$ (833,277)	$ 2,402,514	$ 2,789,019	$ 3,486	$ 3,239,277
14		November	$ 3,239,277	$ 12,525,334	$ 12,989,338	$ (464,004)	$ (300,900)	$ 2,474,373	$ (637,198)	$ 1,837,175	$ 2,121,588	$ 2,652	$ 2,477,025
15		December	$ 2,477,025	$ 12,720,877	$ 13,224,782	$ (503,905)	$ (304,914)	$ 1,668,206	$ (429,594)	$ 1,238,611	$ 1,539,219	$ 1,924	**$ 1,670,130**
16		Total		$ 153,324,004	$ 151,860,699	$ 1,463,305	$ (3,457,261)					$ 44,720	***To Sch A***
17													
18	2019	January	$ -	$ 12,789,089	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
19		February	$ -	$ 11,972,055	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
20		March	$ -	$ 12,748,162	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
21		April	$ -	$ 12,235,810	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
22		May	$ -	$ 12,569,293	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
22a		OBF Recovery	$ 431,561										
23		June	$ -	$ 12,228,363	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
24		July	$ -	$ 13,059,123	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
25		August	$ -	$ 13,261,895	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
26		September	$ -	$ 12,428,108	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
27		October	$ -	$ 12,935,038	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
28		November	$ -	$ 12,503,770	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
29		December	$ -	$ 12,698,976	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
30				$ 151,429,682									
	Sources of Data:			*Sch B1*	*Sch B2*	Col (c) - (d)	Note 1	Cols (b)+(e)+(f)	Note 2	Note 2 & 3 Cols (g)+(h)	Curr Col (i)+ Prior Col (i)+(k) /2	Note 4	Col (g)+(k)

Note 1: Amounts represent recovery of prior years' RBA balance through the RBA rate adjustment effective June 1, 2017 for the period June 2017 through May 2018 and June 1, 2018 for the period June 2018 through May 2019. See HELCO WP-B-001.

Note 2: On December 22, 2017, the 2017 Tax Cuts & Jobs Act was signed into law to be effective for tax years ending after December 31, 2017. In accordance with IRC §451(b), "…the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in... an applicable financial statement of the taxpayer...". This change would supersede the RBA tax accounting treatment (deferred until received in rates) the IRS approved for the Companies on April 21, 2014 and adopted in Decision & Order No. 31908 on Schedule A of the Decoupling Investigation, issued in Docket No. 2013-0141 on February 7, 2014.

IRC §451(b) would eliminate the book tax temporary difference for which ADIT was provided and accordingly, would reduce to zero the tax adjustment to the basis for calculating RBA interest. This change imposed by IRC §451(b) should allow for the deferred RBA income (on which the RBA ADIT balance at December 31, 2017 is based) to be amortized into taxable income over the next 4 years (straight-line basis) with the effect of reducing the tax adjustment balance down to zero by the end of 2021.

RBA Regulatory Asset Balance at 12/31/2017	3,619,366
Composite Federal & State Income Tax Rate	25.75%
RBA ADIT Balance at 12/31/2017	932,055
Years	4
Annual amortization for years 2018 through 2021	233,014
Monthly ADIT amortization	19,418

Note 3: In April 2018, the Companies adjusted the March 31, 2018 RBA balance for the change in accounting methodology identified in Note 2. The January to March 2018 RBA balance subject to interest was recalculated and the RBA Balance was trued-up in April 2018 for $1,394.

Note 4: On June 29, 2018, the Commission issued the Final Decision & Order No. 35559 for the Hawaii Electric Light 2016 tear year rate case (Dkt No. 2015-0170). As the pro-rated RBA interest of 1 day (06/30/18) in June is immaterial, Hawaii Electric Light will use the short term debt rate of 3.25% to calculate the RBA interest for June. Beginning July 1, 2018, Hawaii Electric Light will use the approved short term debt rate of 1.50% to calculate the RBA interest as approved by the Commission in Docket No. 2015-0170.

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF RATE BASE RAM ADJUSTMENT - CHANGE IN RATE BASE
($ in Thousands)

Line No.	Description	HELCO 2016 Test Year Rate Base (Note 2) Beg Balance 12/31/16	HELCO 2016 Test Year Rate Base (Note 2) Budgeted Balance 12/31/2016	HELCO 2019 RAM Rate Base Adjusted Recorded at 12/31/2018	HELCO 2019 RAM Rate Base RAM Projected Amounts	HELCO 2019 RAM Rate Base Estimated at 12/31/2019	
	(a)	(b)	(c)	(d) Note 1	(e) See Detail Below	(f)	
1	Net Cost of Plant in Service, Net of CIAC	$ 649,484	$ 667,682	$ 611,214	$ 127	$ 611,341	
2	Property Held for Future Use	987	755	These Elements of Rate Base are Not Updated for RAM Purposes			
3	Fuel Inventory	6,021	6,021				
4	Materials & Supplies Inventories	7,082	7,082				
5	Unamort Net ASC 740 Reg Asset	11,463	11,477				
6	Pension Tracking Regulatory Asset	22,912	26,421				
7	Contribution in Excess of NPPC	1,524	1,524				
8	Pension Tracking Regulatory Asset	-	-				
9	Deferred System Development System	4,848	4,169				(Note 5)
10	Total Additions	$ 704,321	$ 725,131	$ 667,357	$ 127	$ 667,484	
11	Unamortized CIAC	$ (95,298)	$ (97,211)	$ (3,160)	$ -	$ (3,160)	(Note 3)
11a	Developer Advances	-	-	$ (3,308)	$ -	$ (3,308)	(Note 3)
12	Customer Advances	(11,172)	(11,259)	Not Updated			(Note 3)
13	Customer Deposits	(3,224)	(2,788)				
14	Accumulated Def Income Taxes	(101,743)	(110,377)	(57,663)	(745)	(58,408)	(Note 4), Sch D4
15	ADIT Excess Reg Liability	-	-	(56,685)	914	(55,771)	
16	Unamortized State ITC (Gross)	(15,184)	(15,787)	Not Updated			
17	Pension Reg Liability (Prepaid)	(496)	(1,370)				
18	OPEB Reg Liability	(1,548)	(2,080)				
19	Total Deductions	$ (228,665)	$ (240,872)	$ (153,270)	$ 169	$ (153,101)	
20	Working Cash	$ 1,351	$ 1,351	$ 1,351	Not Updated	$ 1,351	
21	Rate Base at Proposed Rates	$ 477,007	$ 485,610	$ 515,438		$ 515,734	
22	Average Rate Base		$ 481,309			$ 515,586	
23	**Change in Rate Base**					**$ 34,277**	*To Sch D*

Line No.	Description	Reference	Amount $000
24	Column (e) Projected Changes to Rate Base:		
25	Plant - Baseline Capital Project Additions, Net of CIAC	Schedule D2	$ 43,457
26	Major Capital Project Additions, Net of CIAC	Schedule D3	-
27	Accumulated Depreciation/Amortization Change	Schedule E	(43,330)
28	Net Plant	Sum: Lines 25-27	$ 127
29	ADIT - Baseline and Major Capital Projects	Schedule F	$ (745)
30	Excess ADIT Reg Liability Amortization	Schedule D5	1498

Note 1: Amounts are recorded, except for the following adjustments:

	Plant in Service	Acc. Depr.
[A] Unadjusted Balance	$ 1,265,150	$ (550,869)
Add:		
[A] Asset Retirement Obligation		$ (2,006)
[A] Reg Liab-Cost of Removal (net salvage)		$ (104,082)
[A] Retirement Work In Progress		$ 3,021
Unbilled Pole Credits (HELCO-WP-H-001)	$ (937)	
Major Project Adjustments:		
N/A		
Total Adjustments	$ -	$ -
Adjusted Balance	$ 1,265,150	$ (653,936)

[A] SOURCE: Hawaii Electric Light Company, Inc. Monthly Financial Report - December 2018, filed February 28, 2019.

Note 2: See Final Decision and Order No. 35559, For Approval of Rate Increases and Revised Rate Schedules and Rules, in Docket No. 2015-0170, filed June 29, 2018, Exhibit B, Page 1.

Note 3: Per PowerPlan extract. Effective October 2018, the Company reclassified CIAC to Plant in Service or CWIP consistent with FERC guidelines. As of December 2018, Cash CIAC received from Developers, subject to refund, were reclassified to Customer Advances for financial statement purposes. Starting 2018, CIAC has been netted with either Plant in Service or CWIP and Developer Advances which has been included as a reduction to rate base. See further discussion of the Company's treatment of CIAC at HECO-WP-D1-001.

Note 4: As a result of the 2017 Tax Reform Act, Regulatory Liability accounts were created to isolate the impact of the 2017 excess accumulated deferred taxes effective in actuals as of December 2017. These Regulatory Liabilities will be included as a reduction to Rate Base in the future. The ADIT balance shown in this revenue requirement is the composite of the ADIT and the Regulatory Liabilities for Deferred Taxes. See further discussion at Schedule F.

Note 5: HELCO 2016 Test Year Rate Base includes CIS Deferred Costs in Unamortized System Development Costs. See detail in July 11, 2017 Stipulated Settlement Letter, HELCO T-11, page 2.

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF ADJUSTED RECORDED EXCESS ADIT REGULATORY LIABILITY

Line No.	NARUC Account	Reference	DR/(CR) Balance at 12/31/17	DR/(CR) Adjustments	DR/(CR) Amortization	DR/(CR) Balance at 12/31/18	Life	Amortization	Est Bal at 12/31/19
	(a)	(b)	(c)	(d)	(e)	(f) =(c) + (d) + (e)	(g)	(h) = (c) / (g)	(i) = (f) + (h)
1	Recorded Excess ADIT Regulatory Liability Balances December 31, 2018 Recorded Balances								
2	Plant 282 - protected		(54,306,715)	(1,714,011)		(56,020,726)	40	1,400,518	(55,203,757)
3	Plant 283 - unprotected		(362,017)		16,093	(345,924)	15	24,140	(321,784)
4	Nonplant 283 - unprotected		(367,786)		49,038	(318,748)	5	73,557	(245,191)
5	Total Excess ADIT Regulatory Liability		(55,036,518)	(1,714,011)	65,131	**(56,685,398)**		**1,498,215**	**(55,770,732)**
			Note 1		Note 2	***To Sch D1***		***To Sch D1*** ***To Sch E*** ***To Sch F***	***To Sch D1***

Note 1: The 12/31/17 balances represent the amortization base presented in Docket 2015-0170 Hawai'i Electric Light Motion to Adjust Interim Increase, filed March 27, 2018, Exhibit 9. However, this amortization base inadvertently excluded reclassifications recorded at December 31, 2017 between the 2017 unprotected plant 283 excess net regulatory liability and the portion of ASC 740 regulatory assets/liabilities offsetting the related excess deferred income taxes. Please refer to HELCO 2019 Test Year Rate Case, Docket No. 2018-0368, CA-IR-70 for the detailed explanation and required reclassification.

Note 2: Amortization began 5/1/2018.

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF DEPRECIATION & AMORTIZATION RAM ADJUSTMENT

Line No.	NARUC Account	Recorded Depreciable/Amort. Balance (Note 2)	Adjustments (Note 3)	Adjusted Depreciable/Amort. Balance	PUC Approved Accrual Rate in Dkt No. 2009-0321	Annual Accrual
	(a)	(b)	(c)	(d)	(e)	(f)
1	**Plant Accounts**					
2	311	$ 18,580,389		$ 18,580,389	0.02900	$ 538,831
3	312	70,585,608	(1,680,000)	68,905,608	0.03080	2,122,293
4	314	48,549,063		48,549,063	0.02540	1,233,146
5	315	9,926,459		9,926,459	0.03350	332,536
6	Tot - Steam	147,641,520	(1,680,000)	145,961,520	0.02896	4,226,808
7						
8	331	117,720		117,720	0.00940	1,107
9	332	6,211,000		6,211,000	0.02030	126,083
10	333	2,091,309		2,091,309	0.02130	44,545
11	334	774,630		774,630	0.00620	4,803
12	336	121,311		121,311	0.00000	-
13	Tot - Hydro	9,315,969	-	9,315,969	0.01895	176,537
14						
15	341	24,728,472		24,728,472	0.02640	652,832
16	342	13,136,399		13,136,399	0.01990	261,414
17	343	69,597,123		69,597,123	0.02220	1,545,056
18	344	54,181,904		54,181,904	0.01910	1,034,874
19	345	7,919,237		7,919,237	0.01710	135,419
20	Tot - Other Prod	169,563,135	-	169,563,135	0.02141	3,629,595
21						
22	Tot - Prod	326,520,624	(1,680,000)	324,840,624		8,032,941
23						
24	350.1	3,505,139		3,505,139	0.01460	51,175
25	352	4,553,638		4,553,638	0.00890	40,527
26	353	65,561,840		65,561,840	0.01980	1,298,124
27	354	60,041		60,041	0.02120	1,273
28	355	66,493,564		66,493,564	0.01750	1,163,637
29	356	46,097,852		46,097,852	0.04430	2,042,135
30	357	305,800		305,800	0.00000	-
31	358	678,423		678,423	0.00180	1,221
32	359	128,935		128,935	0.01350	1,741
33	Tot - Transm	187,385,232	-	187,385,232	0.02455	4,599,834
34						
35	360.1	675,771		675,771	0.01990	13,448
36	361	3,927,549		3,927,549	0.01600	62,841
37	362	73,903,383		73,903,383	0.01820	1,345,042
38	363	311,321		311,321	0.03960	12,328
39	364	133,439,423	(734)	133,438,689	0.03780	5,043,982
40	365	101,035,790	(1,428)	101,034,362	0.03400	3,435,168
41	366	34,569,685		34,569,685	0.02870	992,150
42	367	104,592,330		104,592,330	0.04080	4,267,367
43	368	96,928,091	(22,601)	96,905,491	0.06870	6,657,407
44	369.1	38,968,378		38,968,378	0.03470	1,352,203
45	369.2	29,339,581		29,339,581	0.02850	836,178
46	370	24,634,583		24,634,583	0.04840	1,192,314
47	Tot - Distr	642,325,886	(24,763)	642,301,123	0.03925	25,210,428
48						
49	Tot - T & D	829,711,118	(24,763)	829,686,355		29,810,262
50						
51	390	22,414,014		22,414,014	0.01290	289,141
52	Tot - General	22,414,014	-	22,414,014	0.01290	289,141
53						
54	Sub-Total	1,178,645,756	(1,704,763)	1,176,940,994		38,132,344
55						
56	390.2 (Kanoelehua)	793,494		793,494	0.01540	12,220
57	Tot - LH Impr	793,494	-	793,494	0.01540	12,220
58						
59	392.1	7,540,415		7,540,415	0.15120	1,140,111
60	392.2	17,609,065		17,609,065	0.02720	478,967
61	Tot - Vehicles	25,149,480	-	25,149,480	0.06438	1,619,078
62						
63						
64	Utility Total Depreciation	$ 1,204,588,731	$ (1,704,763)	$ 1,202,883,968	0.03306	**$ 39,763,642**

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF DEPRECIATION & AMORTIZATION RAM ADJUSTMENT

Line No.	NARUC Account	Recorded Depreciable/Amort. Balance (Note 2)	Adjustments (Note 3)	Adjusted Depreciable/Amort. Balance	PUC Approved Accrual Rate in Dkt No. 2009-0321	Annual Accrual
	(a)	(b)	(c)	(d)	(e)	(f)
65	**Amortization Amounts**					
66						
67	316	$ 1,940,004		$ 1,940,004	0.05000	$ 97,000
68	Tot - Steam	1,940,004	-	1,940,004	0.05000	97,000
69						
70	335	132,698		132,698	0.05000	6,635
71	Tot - Hydro	132,698	-	132,698	0.05000	6,635
72						
73	346	3,439,497		3,439,497	0.05000	171,975
74	Tot - Other Prod	3,439,497	-	3,439,497	0.05000	171,975
75						
76	Tot - Prod	5,512,199	-	5,512,199	0.05000	275,610
77						
78	391.1	2,415,799		2,415,799	0.20000	483,160
79	391.2	605,254		605,254	0.10000	60,525
80	391.3	700,948		700,948	0.06670	46,753
81	393	831,088		831,088	0.04000	33,244
82	394	12,255,662		12,255,662	0.04000	490,226
83	395	291,059		291,059	0.06670	19,414
84	396	39,008		39,008	0.05560	2,169
85	397	27,955,170		27,955,170	0.06670	1,864,610
86	398	4,357,929		4,357,929	0.06670	290,674
87	Tot - General	$ 49,451,916	$ -	$ 49,451,916	0.06654	$ 3,290,775
88	Utility Total Amortization	$ 54,964,115	$ -	$ 54,964,115	0.06489	**$ 3,566,385**

Line No.				
89	TOTAL RAM DEPRECIATION / AMORTIZATION	Line 64 + Line 88	**$ 43,330,027**	*To Sch D1*
90	LESS: Vehicle Depreciation (A/C 392 above)	Line 61	$ (1,619,078)	
91	LESS: ADIT Excess Amortization	Schedule D5	$ (1,498,215)	
92	LESS: Depreciation & Amortization in Current Revenues	Note 1	$ (37,271,303)	
93				
94	RAM Adjustment for Depreciation & Amortization		$ 2,941,430	
95	RAM Adjustment for CIAC Amortization	Note 4	$ -	
96	Total RAM Adjustment for Depreciation & Amortization		**$ 2,941,430**	
97	Times: Factor for Revenue Taxes	Schedule C Line 5	1.0975	
98				
99	RAM DEPRECIATION & AMORTIZATION	Line 96 x Line 97	**$ 3,228,220**	*To Sch A1*

Note 1: Depreciation & Amortization in Current Revenues*:

		2016 Test Year
Total Depreciation		$ 42,106,000
LESS: Vehicle Depreciation (A/C 392)		(1,505,000)
LESS: Amortization of ADIT Excess Amortization	From Sch E, Note 1	(97,697)
Total Depreciation in Current Revenues		40,503,303
ADD: CIAC Amortization	Note 4	(3,232,000)
Total Depreciation and Amortization in Current Revenues		$ 37,271,303
		To Line 92

*See Hawaii Electric Light Company, Inc. Docket No. 2015-0170 HELCO-1601; Revision to Exhibits in Motion to Adjust Interim Increase, Exhibit 3D, page 1 of 13, filed April 10, 2018 and PUC Order No. 35419, Granting Motion to Adjust Interim Increase, Exhibit A, page 1 of 4, filed April 24, 2018. Approved in Final Decision and Order No. 35559, filed June 29, 2018.

Note 2:

Utility Total Depreciable Plant Balance	Line 64	$ 1,204,588,731
Utility Total Amortizable Plant Balance	Line 88	54,964,115
Total Utility Depreciation and Amortization Plant Balance		$ 1,259,552,846
Total Utility Plant in Service	RONE28	$ 1,265,149,706
Less: Land	(i)	(5,596,859)
Total Depreciable Plant in Service		$ 1,259,552,846

SOURCE:
(i): Accounting records.

Note 3:

ARO Assets included in Depreciable Plant	GL# 10100001	$ (1,702,601)
Unitization Adjustment	Line 39 + 40	(2,162)
		$ (1,704,763)

Note 4: Effective October 2018, the Company reclassified CIAC to Plant in Service or CWIP consistent with FERC guidelines. Amounts shown in this Schedule represent balances net of CIAC.

Maui Electric Company Ltd. - Transmittal 19-03 RBA Provision
Summary of Consumer Advocate Statement of Position Adjustments

Line No.	Description	Template Reference		RBA Revenue Adj. Impact
1	Continue RBA Interest Calculation Net of Tax	Schedule B	$	(4,503)
2	Commence Estimated ARAM Excess ADIT Amortization	Schedule D5	$	(1,326,473)
3	Joint Pole Revenues	Schedule A1	$	(806,832)

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF 2019 REVENUE BALANCING ACCOUNT RATE ADJUSTMENT

Line No.	Description	Reference	Amount	6/1/2019 Rate Amount	8/23/2018	Incremental
	(a)	(b)	(c)	(d)		
	RECONCILIATION OF RBA BALANCE:					
1	RBA Prior calendar year-end balance	Schedule B	$ 6,080,476			
1a	OBF Progam Implementation Cost Recovery - Year 1 of 2	Schedule N	$ 180,849			
			$ 6,261,325			
2	Revenue Tax Factor	Schedule C	1.0975			
3	Revenue for RBA Balance			$ 6,871,804		
	RATE ADJUSTMENT MECHANISM "RAM" AMOUNT:					
4	Total RAM Revenue Adjustment Allowed (Note 2)	Schedule A1		$ 1,218,583		
5	EARNINGS SHARING REVENUE CREDITS - 2019 ROE:	Schedule H		$ -		
6	PERFORMANCE INCENTIVE MECHANISM REWARD (PENALTY)	Schedule M		$ (394,917)		
7	PUC-ORDERED MAJOR OR BASELINE CAPITAL PROJECTS CREI	Schedule I		$ (10,353)		
8	TOTAL RBA REVENUE ADJUSTMENT	Sum Col. (d)		$ 7,685,116		
9	GWH SALES VOLUME ESTIMATE JUNE 2019 - MAY 2018	MECO-WP-A-001		1,051.0		
10	RBA RATE ADJUSTMENT, RBA Balance - ¢ per kWh	Note 1		**0.7312**	**0.3183**	**0.4129**
11	MONTHLY BILL IMPACT @ 600 KWH - Maui Division			**$ 4.39**	**$ 1.91**	**$ 2.48**
	MONTHLY BILL IMPACT @ 500 KWH - Maui Division			**$ 3.66**	**$ 1.59**	**$ 2.07**
12	MONTHLY BILL IMPACT @ 400 KWH - Molokai and Lanai Divisions			**$ 2.92**	**$ 1.27**	**$ 1.65**

Note 1: 2019 RBA Rate Adjustment Breakdown

	Col. (d)	Rate Adjustment cents per kWh	Percentage Share
RBA Balance	$ 6,871,804	0.65383479	89.4170%
RAM Amount	$ 1,218,583	0.11594506	15.8564%
Earnings Sharing Revenue Credits	$ -	0.00000000	0.0000%
Performance Incentive Mechanism Reward (Penalty)	$ (394,917)	-0.03757540	-5.1387%
Major or Baseline Capital Projects Credits	$ (10,353)	-0.00098508	-0.1347%
	$ 7,685,116	0.73121938	100.00%

Note 2: Total RAM Revenue Adjustment Allowed is the sum of the RAM Cap + Exeptional and Other Projects. See Order No. 32735, filed March 31, 2015, paragraph 107, pages 94-95, which states that the Total RAM Revenue Adjustment is to be comprised of the RAM Cap plus recovery of Exceptional And Other Matters.

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF TOTAL RAM REVENUE ADJUSTMENT ALLOWED

Line No.	Description	Reference	Amount	
	(a)	(b)	(c)	
	RAM REVENUE ADJUSTMENT DETERMINED ACCORDING TO EXISTING TARIFFS AND PROCEDURES			
1	O&M RAM	Schedule C	$	1,512,028
2	Rate Base RAM - Return on Investment	Schedule D	$	2,223,218
3	Depreciation & Amortization RAM Expense	Schedule E	$	(1,058,969)
4	Joint Pole Revenues	Note 3	$	(1,457,694)
5	Total RAM Revenue Adjustment		**$**	**1,218,583**
	RAM REVENUE ADJUSTMENT CAP			
6	RAM Cap for 2019 RAM Revenue Adjustment	Schedule J	$	3,401,245
7	Plus: Exceptional and Other Matters	Schedule K		775,520
8	2019 Cap - Total RAM Revenue Adjustment (Note 2)		**$**	**4,176,766**
9	**Total RAM Revenue Adjustment Allowed** (Note 1)	Lesser of Line 5 or Line 8	**$**	**1,218,583**
				To Sch A

Note 1 RAM Revenue Adjustment Allowed:
See Order No. 32735, filed March 31, 2015, paragraph 106, page 94:
"The RAM Revenue Adjustment to be applied to determine effective Target Revenues will be the lesser of (a) the RAM Revenue Adjustment determined according to existing tariffs and procedures or (b) a RAM Revenue Adjustment Cap ("RAM Cap) to be calculated as specified."

Note 2 Total RAM Cap:
See Order No. 32735, filed March 31, 2015, paragraph 110, page 96:
"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."

Note 3 See Decision and Order No. 35768, Docket No. 2018-0075 filed October 16, 2018. Commission approved the Asset Transfer, Pole Licensing and Amended Joint Pole Agreements and the accounting and ratemaking treatment described in Exhibit E of the Application. The negotiated settlement over a ten year period for attachment fees, inclusive of revenue taxes, is $650,862 per year.

For ratemaking purposes, attachment and ancillary revenues received from Hawaiian Telcom and other third party attachers for use of the poles are reflected in other operating revenue and will offset any depreciation costs of transferred poles and related equipment, and the authorized return to the Companies shareholders.

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
SUMMARY OF ACCUMULATED REVENUE BALANCING ACCOUNT

Line No.	Month (a)	Beginning Balance (b)	Target Revenues (c)	Recorded Adjusted Revenue (d)	Variance to RBA (e)	Adjustment for Prior Year RBA recovery (f)	RBA Balance Before ADIT (g)	ADIT Related to RBA Revenues (h)	Net Ending Balance (i)	Average Balance Subject to Interest (j)	Interest at 1.25%/year (k)	Ending Balance (l)
	Monthly RBA Balance and Activity (Monthly PUC Rpt.)											
1	2017 December	$ 4,861,114	$ 10,989,854	$ 10,098,926	$ 890,928	$ (211,037)				$ 3,177,327	3,310	$ 5,544,314
	December - Revised - Note 2						$ 5,544,314	$ (1,427,765)	$ 4,116,549			
2												
3	2018 January	$ 5,544,314	$ 11,206,137	$ 10,623,809	$ 582,328	$ (220,318)	$ 5,906,325	$ (1,520,990)	$ 4,385,335	$ 4,250,942	4,428	$ 5,910,753
4	February	$ 5,910,753	$ 9,935,477	$ 9,491,075	$ 444,402	$ (196,271)	$ 6,158,884	$ (1,586,028)	$ 4,572,856	$ 4,481,309	4,668	$ 6,163,552
5	March	$ 6,163,552	$ 11,192,619	$ 10,411,284	$ 781,335	$ (212,026)	$ 6,732,861	$ (1,733,838)	$ 4,999,023	$ 4,788,273	4,988	$ 6,737,849
6	April	$ 6,737,849	$ 10,651,913	$ 10,646,857	$ 5,056	$ (220,634)	$ 6,522,271	$ (1,679,607)	$ 4,842,664	$ 4,923,337	5,128	$ 6,527,400
7	May	$ 6,527,400	$ 11,327,795	$ 10,595,249	$ 732,546	$ (215,635)	$ 7,044,310	$ (1,814,042)	$ 5,230,268	$ 5,039,030	5,249	$ 7,049,559
8	June	$ 7,049,559	$ 11,012,313	$ 10,863,539	$ 148,774	$ (492,662)	$ 6,705,671	$ (1,726,836)	$ 4,978,835	$ 5,107,176	5,320	$ 6,710,991
9	July	$ 6,710,991	$ 11,478,169	$ 11,673,086	$ (194,917)	$ (533,474)	$ 5,982,600	$ (1,540,632)	$ 4,441,968	$ 4,713,062	4,909	$ 5,987,510
10	August	$ 5,987,510	$ 12,061,980	$ 11,905,612	$ 156,368	$ (537,788)	$ 5,606,090	$ (1,443,674)	$ 4,162,416	$ 4,304,647	4,484	$ 5,610,574
11	September	$ 5,610,574	$ 12,351,310	$ 11,610,872	$ 740,438	$ (475,735)	$ 5,875,277	$ (1,512,994)	$ 4,362,283	$ 4,264,592	4,442	$ 5,879,719
12	October	$ 5,879,719	$ 12,685,522	$ 12,527,507	$ 158,015	$ (555,386)	$ 5,482,348	$ (1,411,808)	$ 4,070,541	$ 4,218,633	4,394	$ 5,486,743
13	November	$ 5,486,743	$ 12,060,691	$ 11,452,008	$ 608,683	$ (489,447)	$ 5,605,979	$ (1,443,645)	$ 4,162,334	$ 4,118,635	4,290	$ 5,610,269
14	December	$ 5,610,269	$ 12,409,434	$ 11,462,777	$ 946,657	$ (480,971)	$ 6,075,956	$ (1,564,673)	$ 4,511,283	$ 4,338,954	$ 4,520	$ 6,080,476
15			$ 138,373,360	$ 133,263,673	$ 5,109,687	$ (4,630,347)	$ 73,698,573			$ 54,548,589	$ 56,821	
16												
17												
18	2019 January	$ -	$ 12,176,939	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
19	February	$ -	$ 10,898,215	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
20	March	$ -	$ 11,711,948	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
21	April	$ -	$ 11,406,798	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
22	May	$ -	$ 11,886,320	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
22a	OBF Recov(	$ 361,697										
23	June	$ -	$ 12,161,933	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
24	July	$ -	$ 13,023,218	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
25	August	$ -	$ 13,364,762	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
26	September	$ -	$ 12,622,275	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
27	October	$ -	$ 12,963,819	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
28	November	$ -	$ 12,325,280	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
29	December	$ -	$ 12,681,674	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
			$ 147,223,181									
	Sources of Data:		Sch B1	Sch B2	Col (c) - (d)	Note 1	Cols (b)+(e)+(f)	Note 2	Note 2 & 3 Cols (g)+(h)			Cols (g)+(k)

Note 1:
Amounts represent recovery of prior years' RBA balance through the RBA rate adjustment effective June 1, 2017 for the period June 2017 through May 2018 and June 1, 2018 for the period June 2018 through May 2019. See MECO-WP-B-001, line 8.

Note 2:
On December 22, 2017, the 2017 Tax Cuts & Jobs Act was signed into law to be effective for tax years ending after December 31, 2017. In accordance with IRC §451(b), "...the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in... an applicable financial statement of the taxpayer...". This change would supersede the RBA tax accounting treatment (deferred until received in rates) the IRS approved for the Companies on April 21, 2014 and adopted in Decision & Order No. 31908 on Schedule A of the Decoupling Investigation, issued in Docket No. 2013-0141 on February 7, 2014.

IRC §451(b) would eliminate the book tax temporary difference for which ADIT was provided and accordingly, would reduce to zero the tax adjustment to the basis for calculating RBA interest. This change imposed by IRC §451(b) should allow for the deferred RBA income (on which the RBA ADIT balance at December 31, 2017 is based) to be amortized into taxable income over the next 4 years (straight-line basis) with the effect of reducing the tax adjustment balance down to zero by the end of 2021.

RBA Regulatory Asset Balance at 12/31/2017	$ 5,544,314
Composite Federal & State Income Tax Rate	25.75%
RBA ADIT Balance at 12/31/2017	$ 1,427,765
Years	4
Annual amortization for years 2018 through 2021	356,941
Monthly ADIT amortization	29,745

Note 3:
In April 2018, the Companies adjusted the March 31, 2018 RBA balance for the change in accounting methodology identified in Note 2 above. The January to March 2018 RBA balance subject to interest was recalculated and the RBA Balance was trued-up in April 2018 for $562.

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF RATE BASE RAM ADJUSTMENT - CHANGE IN RATE BASE
(000's)

Line No.	Description (a)	MECO 2018 Test Year Rate Base, Note 2: Beg. Balance 12/31/2018 (b)	Budgeted Balance 12/31/2018 (c)	MECO 2019 RAM Rate Base: Adjusted Recorded at 12/31/2018 (d) Note 1	RAM Projected Amounts (e) See Detail Below	Estimated at 12/31/2019 (f)
1	Net Cost of Plant in Service	$ 630,341	$ 663,148	$ 560,051	$ 22,968	$ 583,019
2	Property Held for Future Use	1,303	1,303			
3	Fuel Inventory	9,375	9,375		These Elements	
4	Materials & Supplies Inventories	16,799	16,799		of Rate Base are	
5	Unamort Net ASC 740 Reg Asset (Note 4)	4,686	4,881		Not Updated for	
6	Pension Regulatory Asset	12,682	12,071			
7	Pension Non-Service Cost	-	270		RAM Purposes	
8	Unamort Sys Dev Costs	2,595	2,179			
9	Contrib in Excess of NPPC	1,034	1,034			
10	Total Additions	$ 678,815	$ 711,060	$ 608,244	$ 22,968	$ 631,212
11	Unamortized CIAC (Note 3)	$ (102,684)	$ (108,860)	$ (895)	$ -	$ (895)
11a	Developer Advances (Note 3)	-	-	(322)	-	(322)
12	Customer Advances (Note 3)	(9,764)	(10,775)			
13	Customer Deposits	(2,569)	(2,274)		Not Updated	
14	Accumulated Def Income Taxes	(56,265)	(58,134)	(59,168)	(884)	(60,052)
15	ADIT Excess Reg Liability (Note 4)	(49,234)	(48,780)	(54,839)	1,169	(53,669)
16	Unamortized State ITC (Gross)	(14,695)	(14,199)			
17	Unamortized Gain on Sale	-	(1,916)			
18	Pension Reg Liability	-	-			
19	OPEB Reg Libility	(2,513)	(2,684)		Not Updated	
20	Total Deductions	$ (237,724)	$ (247,622)	$ (145,918)	$ 286	$ (145,633)
21	Working Cash (Note 5)	2,061	2,061	2,061	Not Updated	2,061
22	Rate Base at Proposed Rates	$ 443,152	$ 465,499	$ 464,387		$ 487,641
23	Average Rate Base		$ 454,326			$ 476,014
24	**Change in Rate Base**					**$ 21,688**

To Schedule D

Line No.	Description	Reference	Amount
25	Column (e) Projected Changes to Rate Base:		
26	Plant - Baseline Capital Project Additions, Net of CIAC	Schedule D2 Line 27	36,175
27	Major Project Additions, Net of CIAC	Schedule D3	18,329
28	Accumulated Depreciation/Amortization Change	Schedule E Line 189	(31,536)
29	Net Plant	Sum Lines 26-28	22,968
30	Accum. Def Income Taxes - Baseline and Major Capital Projects	Schedule F Line 19	(884)
31	Excess ADIT Reg Liability Amortization	Schedule D5	1,681

* Amounts may not add due to rounding

Notes:

Note 1 **Amounts are recorded, except for the following adjustments:**

	Plant in Service	Acc. Depr.	Schedule D4 ADIT	Schedule D5 Excess ADIT
(A) Unadjusted Balance - recorded	$ 1,096,798	$ (510,668)	$ (59,177)	$ (54,839)
(A) Add: Asset Retirement Obligation	$ 1,325	$ (1,479)		
(A) RWIP		$ 3,250		
(A) Reg Liab-Cost of Removal (net salvage)		$ (29,998)		
Unbilled Pole Credits (HECO-WP-H-001)	$ (1,028)			
Major Project Adjustments (MECO-WP-D2-001):				
Kuihelani Substation Project (X00004)	$ (83)	$ -	$ 9	
Kaonoulu Substation Land/Easement	$ (600)	$ -		
CHP Adjustment:				
Lanai CHP** MECO-WP-D1-002, p.2	3,500	(966)	-	
Total CHP Adjustment	$ 3,500	$ (966)	$ -	$ -
Adjusted Balance	$ 1,099,912	$ (539,861)	$ (59,168)	$ (54,839)

** **Lanai CHP:** As discussed in the Stipulated Settlement Letter in Docket No. 2009-0163, filed on 06/21/2010, MECO accepted the Consumer Advocate's recommendation that the ratemaking treatment for the Lanai CHP Agreement follow traditional utility plant asset accounting rather than direct financing lease treatment as required for public financial reporting. MECO agreed to permanently adjust the original cost of the CHP system to $3.5 million.

(A) Source: Maui Electric Company, Limited Monthly Financial Report - December 2018, filed February 28, 2019.

Note 2 Decision and Order No. 36219 from Docket No. 2017-0150, filed March 18, 2019, pages 134-135 adjusted for items specifically identified by the Commission including the exclusion of the Kaonoulu Project, Kuihelani Substation Land, splitting of the ADIT Excess regulatory liability and Unamortized Gain on Sale. See also page 3 of Attachment 4 to this transmittal.

Note 3 Effective October 2018, the Company reclassified CIAC to Plant in Service or CWIP consistent with FERC guidelines. As of December 31, 2018 Cash CIAC received from Developers, subject to refund, were reclassified to Customer Advances. Starting 2018, CIAC has been netted with Plant in Service and Developer Advances which has been included as a deduction to rate base. See further discussion of the Company's treatment of CIAC at MECO-WP-D2-005.

Note 4 As a result of the 2017 Tax Reform Act, regulatory liability accounts were created as of December 31, 2017 to isolate the 2017 excess accumulated deferred taxes resulting from the lower federal tax rate. The bifurcated regulatory liabilities are included as a reduction to rate base. However, in the presentation of rate base in Decision and Order No. 36219, in Docket No. 2017-0150, it was combined with the balance of the unamortized Net ASC 740 Regulatory Asset balance. On August 20, 2018, in Docket No. 2017-0150, the Company filed schedules illustrating the different components and reconciling to previously filed exhibits and attachments. Presentation in line 5 and 17 above is consistent with the Company's filing of August 20, 2018. There is no net impact to the total rate base as a result of this revised presentation.

Note 5 Decision and Order No. 36219 from Docket No. 2017-0150, filed March 18, 2019, page 135. ($2,058k = $2,233k less $175k). There was a small adjustment to working cash as a result of the items specified by the Commission and noted in Note 2.

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF ADJUSTED RECORDED EXCESS ADIT REGULATORY LIABILITY

Line No.	NARUC Account	Reference	DR/(CR) Balance at 12/31/17	DR/(CR) Adjustments	DR/(CR) Amortization	DR/(CR) Balance at 12/31/18	Life	Amortization	Est Bal at 12/31/19
	(a)	(b)	(c)	(d)	(e)	(f) = (c) + (d) + (e)	(g)	(h) = (c) / (g)	(i) = (f) + (h)
1	Recorded Excess ADIT Regulatory Liability Balances December 31, 2017 Recorded Balances								
2	Plant 282 - protected		(47,322,427)	(1,769,817)		(49,092,244)	40	1,227,306	(48,376,315)
3	Plant 283 - unprotected		(5,615,682)	(26)	218,390	(5,397,318)	15	374,381	(5,022,937)
4	Nonplant 283 - unprotected		(395,431)	(2)	46,133	(349,300)	5	79,087	(270,213)
5	Total Excess ADIT Regulatory Liability		(53,333,540)	(1,769,845)	264,523	(54,838,862)		1,680,773	(53,669,466)
						to Sch D1		to Sch D1 & F	to Sch D1

Note 1: The 12/31/17 balances represent the amortization base presented in Hawaiian Electric Estimated Tax Impacts Arising from the Tax Reform Act, Exhibit 4, page 3, filed January 31, 2018 in Docket No. 2016-0328, Hawaiian Electric's 2017 Test Year Rate Case. However, this amortization base inadvertently excluded reclassifications recorded at December 31, 2017 between the 2017 unprotected plant 283 excess net regulatory liability and the portion of ASC 740 regulatory assets/liabilities offsetting the related excess deferred income taxes. Revisions to the excess ADIT balance and amortization will be made at the next available opportunity.

Note 2: Amortization began 6/1/2018.

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF DEPRECIATION AND AMORTIZATION RAM ADJUSTMENT

Line No.	FERC Account	Recorded Depreciable/Amort. Balance (net of CIAC)	Adjustments	Adjusted Depreciable/Amort. Balance	PUC Approved Accrual Rate Dkt. 2016-0431	Annual Accrual
	(a)	(b)	(c)	(d)	(e)	(f)
		Note 1 and 4	Note 2			
1	**MAUI**					
2	310.00	-		-	0.0000	-
3	311.00	7,037,210		7,037,210	0.0375	263,895
4	312.00	55,649,389	(1,325,000)	54,324,389	0.0446	2,422,868
5	314.00	49,974,240		49,974,240	0.0466	2,328,800
6	315.00	10,891,411		10,891,411	0.0525	571,799
7	**MAUI STEAM PRODUCTION**	123,552,250	(1,325,000)	122,227,250	0.0452	5,587,362
8						
9	340.00	-		-	0.0000	-
10	341.00	35,255,765		35,255,765	0.0207	729,794
11	342.00	4,492,172		4,492,172	0.0215	96,582
12	343.00	50,005,988		50,005,988	0.0228	1,140,137
13	344.00	109,040,348		109,040,348	0.0146	1,591,989
14	345.00	30,817,085		30,817,085	0.0221	681,058
15	**MAUI OTHER PRODUCTION**	229,611,358	-	229,611,358	0.0185	4,239,560
16				-		-
17	**MAUI TOTAL PRODUCTION**	353,163,608	(1,325,000)	351,838,608	0.0278	9,826,922
18						
19	350.00	-		-	0.0000	-
20	350.10	2,452,270		2,452,270	0.0119	29,182
21	352.00	7,254,313		7,254,313	0.0098	71,092
22	353.00	56,714,964		56,714,964	0.0239	1,355,488
23	355.00	36,258,567		36,258,567	0.0254	920,968
24	356.00	27,271,972		27,271,972	0.0303	826,341
25	357.00	691,536		691,536	0.0190	13,139
26	358.00	1,238,590		1,238,590	0.0167	20,684
27	**MAUI TRANSMISSION**	131,882,212	-	131,882,212	0.0245	3,236,894
28						
29	360.00	-		-	0.0000	-
30	360.10	1,866,504		1,866,504	0.0138	25,758
31	361.00	2,967,620		2,967,620	0.0143	42,437
32	362.00	68,842,831	(83,441)	68,759,390	0.0215	1,478,327
33	363.00	2,140,265		2,140,265	0.1093	233,931
34	364.00	50,516,213		50,516,213	0.0319	1,611,467
35	365.00	58,464,600		58,464,600	0.0231	1,350,532
36	366.00	23,147,254		23,147,254	0.0204	472,204
37	367.00	72,388,261		72,388,261	0.0268	1,940,005
38	368.00	63,865,298		63,865,298	0.0475	3,033,602
39	369.10	26,248,282		26,248,282	0.0150	393,724
40	369.20	58,128,513		58,128,513	0.0203	1,180,009
41	370.00	15,589,505		15,589,505	0.0342	533,161
42	373.00	11,293,879		11,293,879	0.0170	191,996
43	**MAUI DISTRIBUTION**	455,459,025	(83,441)	455,375,584	0.0274	12,487,153
44						
45	389.20	-		-	0.0000	-
46	390.00	11,537,690		11,537,690	0.0245	282,673
47	**MAUI GENERAL**	11,537,690	-	11,537,690	0.0245	282,673
48						
49	392.10	7,674,719		7,674,719	0.0618	474,298
50	392.20	5,558,410		5,558,410	0.0618	343,510
51	**MAUI TRANSPORTATION**	13,233,129	-	13,233,129	0.0618	817,807
52						
53	**TOTAL MAUI DIVISION**	965,275,664	(1,408,441)	963,867,223	0.0276	26,651,450
54						

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF DEPRECIATION AND AMORTIZATION RAM ADJUSTMENT

Line No.	FERC Account	Recorded Depreciable/Amort. Balance (net of CIAC)	Adjustments	Adjusted Depreciable/Amort. Balance	PUC Approved Accrual Rate Dkt. 2016-0431	Annual Accrual
	(a)	(b) Note 1 and 4	(c) Note 2	(d)	(e)	(f)
55	**LANAI**					
56	340.0L	-		-	0.0000	-
57	341.0L	4,085,725		4,085,725	0.0207	84,575
58	342.0L	1,978,695		1,978,695	0.0215	42,542
59	343.0L	1,835,973		1,835,973	0.0228	41,860
60	344.0L	8,602,599		8,602,599	0.0146	125,598
61	345.0L	4,034,627		4,034,627	0.0221	89,165
62	**LANAI OTHER PRODUCTION**	20,537,619	-	20,537,619	0.0187	383,740
63						
64	360.1L	160,485		160,485	0.0138	2,215
65	362.0L	2,418,435		2,418,435	0.0215	51,996
66	364.0L	2,318,342		2,318,342	0.0319	73,955
67	365.0L	2,818,134		2,818,134	0.0231	65,099
68	366.0L	892,989		892,989	0.0204	18,217
69	367.0L	2,340,580		2,340,580	0.0268	62,728
70	368.0L	737,977		737,977	0.0475	35,054
71	369.1L	1,040,674		1,040,674	0.0150	15,610
72	369.2L	821,739		821,739	0.0203	16,681
73	370.0L	436,016		436,016	0.0342	14,912
74	373.0L	142,740		142,740	0.0170	2,427
75	**LANAI DISTRIBUTION**	14,128,111	-	14,128,111	0.0254	358,893
76						
77	389.2L	-		-	0.0000	-
78	390.0L	804,756		804,756	0.0245	19,717
79	**LANAI GENERAL**	804,756	-	804,756	0.0245	19,717
80						
81	392.1L	856,537		856,537	0.0618	52,934
82	392.2L	292,057		292,057	0.0618	18,049
83	**LANAI TRANSPORTATION**	1,148,594	-	1,148,594	0.0618	70,983
84						
85	Lanai CHP - Production	-	3,010,000	3,010,000	0.0186	55,986
86	Lanai CHP - Distribution	-	490,000	490,000	0.0255	12,495
87	**LANAI RATEMAKING ADJUSTMENT**	-	3,500,000	3,500,000	0.0196	68,481
88						
89	**TOTAL LANAI DIVISION**	36,619,080	3,500,000	40,119,080	0.0225	901,814
90						
91	**MOLOKAI**					
92	302.0M	-		-	0.0000	-
93	**INTANGIBLE PLANT**	-	-	-	0.0000	-
94						
95	340.0M	-		-	0.0000	-
96	341.0M	3,000,086		3,000,086	0.0207	62,102
97	342.0M	2,010,598		2,010,598	0.0215	43,228
98	343.0M	2,825,457		2,825,457	0.0228	64,420
99	344.0M	12,253,705		12,253,705	0.0146	178,904
100	345.0M	4,909,679		4,909,679	0.0221	108,504
101	**MOLOKAI OTHER PRODUCTION**	24,999,525	-	24,999,525	0.0183	457,158
102						
103	350.1M	-		-	0.0000	-
104	353.0M	631,045		631,045	0.0239	15,082
105	354.0M	38,669		38,669	0.0155	599
106	355.0M	238,785		238,785	0.0254	6,065
107	356.0M	275,140		275,140	0.0303	8,337
108	**MOLOKAI TRANSMISSION**	1,183,639	-	1,183,639	0.0254	30,083
109						
110	360.1M	32,462		32,462	0.0138	448
111	361.1M	59,259		59,259	0.0143	847
112	362.0M	1,489,921		1,489,921	0.0215	32,033
113	363.0M	1,454,153		1,454,153	0.1093	158,939
114	364.0M	4,890,631		4,890,631	0.0319	156,011
115	365.0M	2,914,854		2,914,854	0.0231	67,333
116	366.0M	(321,556)		(321,556)	0.0204	(6,560)
117	367.0M	3,375,673		3,375,673	0.0268	90,468
118	368.0M	1,253,190		1,253,190	0.0475	59,527
119	369.1M	1,603,242		1,603,242	0.0150	24,049
120	369.2M	882,751		882,751	0.0203	17,920
121	370.0M	510,746		510,746	0.0342	17,468
122	373.0M	350,101		350,101	0.0170	5,952
123	**MOLOKAI DISTRIBUTION**	18,495,427	-	18,495,427	0.0338	624,434
124						
125	389.2M	56,383		56,383	0.0000	-
126	390.0M	875,631		875,631	0.0245	21,453
127	**MOLOKAI TOTAL GENERAL**	932,014	-	932,014	0.0230	21,453
128						
129	392.1M	617,904		617,904	0.0618	38,186
130	392.2M	266,875		266,875	0.0618	16,493
131	**MOLOKAI TRANSPORTATION**	884,779	-	884,779	0.0618	54,679
132						
133	**TOTAL MOLOKAI DIVISION**	46,495,384	-	46,495,384	0.0255	1,187,808
134						
135				-		
136	**UTILITY TOTAL DEPRECIATION**	1,048,390,128	2,091,559	1,050,481,687	0.0274	28,741,071
137						

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF DEPRECIATION AND AMORTIZATION RAM ADJUSTMENT

Line No.	FERC Account	Recorded Depreciable/Amort. Balance (net of CIAC)	Adjustments	Adjusted Depreciable/Amort. Balance	PUC Approved Accrual Rate Dkt. 2016-0431		Annual Accrual
	(a)	(b)	(c)	(d)	(e)		(f)
		Note 1 and 4	Note 2				
138	**Amortization Amounts**						
139							
140	**MAUI**						
141	316.00	3,262,494		3,262,494	0.0500	$	163,125
142	346.00	9,542,526		9,542,526	0.0500		477,126
143	**MAUI PRODUCTION**	12,805,020	-	12,805,020	0.0500		640,251
144							
145	391.10	1,268,406		1,268,406	0.2000		253,681
146	391.20	372,496		372,496	0.1000		37,250
147	391.30	997,480		997,480	0.0667		66,532
148	393.00	507,752		507,752	0.0400		20,310
149	394.00	7,190,293		7,190,293	0.0400		287,612
150	395.00	401,941		401,941	0.0667		26,809
151	396.00	169,489		169,489	0.0556		9,424
152	397.00	17,769,571		17,769,571	0.0667		1,185,230
153	398.00	1,104,097		1,104,097	0.0667		73,643
154	**MAUI GENERAL**	29,781,525	-	29,781,525	0.0658		1,960,491
155							
156	**TOTAL MAUI DIVISION**	42,586,545	-	42,586,545	0.0611		2,600,742
157							
158	**LANAI**						
159	346.0L	295,218		295,218	0.0500		14,761
160	**LANAI OTHER PRODUCTION**	295,218	-	295,218	0.0500		14,761
161							
162	391.1L	25,521		25,521	0.2000		5,104
163	391.2L	2,331		2,331	0.1000		233
164	391.3L	6,360		6,360	0.0667		424
165	394.0L	63,102		63,102	0.0400		2,524
166	397.0L	861,326		861,326	0.0667		57,450
167	398.0L	68,485		68,485	0.0667		4,568
168	**LANAI GENERAL**	1,027,125	-	1,027,125	0.0684		70,304
169							
170	**TOTAL LANAI DIVISION**	1,322,343	-	1,322,343	0.0643		85,065
171							
172							
173	**MOLOKAI**						
174	346.0M	175,811		175,811	0.0500		8,791
175	**MOLOKAI OTHER PRODUCTION**	175,811	-	175,811	0.0500		8,791
176							
177	391.1M	10,308		10,308	0.2000		2,062
178	391.2M	-		-	0.1000		-
179	391.3M	11,394		11,394	0.0667		760
180	394.0M	156,784		156,784	0.0400		6,271
181	397.0M	1,305,798		1,305,798	0.0667		87,097
182	398.0M	67,353		67,353	0.0667		4,492
183	**MOLOKAI GENERAL**	1,551,637	-	1,551,637	0.0649		100,682
184							
185	**TOTAL MOLOKAI DIVISION**	1,727,448	-	1,727,448	0.0634		109,473
186							
187	**UTILITY TOTAL AMORTIZATION**	45,636,336	-	45,636,336	0.0613		2,795,280
188							
189	TOTAL RAM DEPRECIATION / AMORTIZATION				Line 136 + Line 187	$	**31,536,351**
190	LESS: Vehicle Depreciation (A/C 392 above)				sum of lines 51,83,131	$	**(943,470)**
191	LESS: Depreciation & Amortization in Current Revenues				Note 3	$	**(29,877,000)**
192							
193	RAM Adjustment for Depreciation & Amortization					$	**715,881**
194	RAM Adjustment for CIAC Amortization				Note 4	$	**-**
195	LESS: ADIT Excess Amortization				Schedule D5	$	**(1,680,773)**
196	Total RAM Adjustment for Depreciation & Amortization					$	**(964,892)**
197	Times: Factor for Revenue Taxes				Schedule C Line 5		1.0975
198							
199	RAM DEPRECIATION & AMORTIZATION				Line 196 * Line 197	$	**(1,058,969)**
							To Sch A1

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
DETERMINATION OF DEPRECIATION AND AMORTIZATION RAM ADJUSTMENT

Line No.	FERC Account	Recorded Depreciable/Amort. Balance (net of CIAC)	Adjustments	Adjusted Depreciable/Amort. Balance	PUC Approved Accrual Rate Dkt. 2016-0431	Annual Accrual
	(a)	(b) Note 1 and 4	(c) Note 2	(d)	(e)	(f)

Footnotes:

(1)

Depreciable Balance	$ 1,048,390,128	Line 136
Amortizable Balance	45,636,336	Line 187
Total Utility Plant per Schedule	$ 1,094,026,464	
Add: Utility Plant Acquisition Adjusment not included in Schedule.	$ 1,785,138	
Add: Land, Land Rights, Franchises & Consents as of 12/31/18 not included in Schedule	2,311,300	
Total Utility Plant per G/L	$ 1,098,122,903	December 2018 Monthly Financial Report filed 2/28/19
Less: M0001890 Kaonoulu Substation Land/Easement	$ (599,580)	MECO-WP-D2-001
Adjusted Total Utility Plant	$ 1,097,523,323	

(2) Amounts are recorded, except for the following adjustments:

Lanai CHP (Line 87)	3,500,000	MECO-RWP-1401 (Revised 3/28/12), Dkt. No. 2011-0092, page 10
Asset Retirement Obligation Entries (Line 4)	(1,325,000)	Schedule D1, Note 1
Sub-Total Adjustments	$ 2,175,000	Column (c)
Major Project Adjustments from WP-D2-001:		
Kuihelani Substation Project (X00004)	$ (83,441)	Line 32
Total Adjustments	$ 2,091,559	Line 136, Column (c)

(3)

Depreciation & Amortization in Current Revenues[1]:		Depr/Amort Expense
Total Depreciation		33,157,000
LESS: Vehicle Depreciation (A/C 392)		(835,000)
Total Depreciation in Current Revenues		32,322,000
ADD: CIAC Amortization	Note 4	(2,445,000)
Total Depreciation & Amortization in Current Revenues		$ 29,877,000

[1] In Interim D&O No. 35631 issued on August 9, 2018, in Docket 2017-0150, the Commission approved utilizing the "Settlement Depreciation Rates" and accepted the Parties' Settlement Agreement filed on 6/15/18 (Exhibit 1, Table 26 - Depreciation & Amortization Expense using Proposed Settlement Depr. Rates per Dkt. No. 2016-0431).

(4) Effective October 2018, the Company reclassified CIAC to Plant in Service or CWIP consistent with FERC guidelines. Amounts shown in this Schedule represents balances net of CIAC.

Exhibit 5

Copies of Testimony Excerpts Related to Excess ADIT Amortization from Indiana, Idaho, and Kansas

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March 28, 2018

Diane Hanian, Commission Secretary
Idaho Public Utilities Commission
W. 472 Washington Street
Boise, Idaho 83720

RE: Case No. GNR-U-18-01, Avista Report on Impact of Federal Tax Code Revisions on Utility Costs and Ratemaking

Dear Ms. Hanian:

Pursuant to the Commission's directive in Order No. 33965 in Case No. GNR-U-18-01, Avista Corporation dba Avista Utilities ("Avista" or "the Company") hereby submits an original and seven copies of its report relating to the impact of the Federal Tax Code revisions on utility costs and ratemaking, as well as its proposal for reflecting the new tax law in customer rates and returning deferred tax benefits to customers. Included with this response, and attached for filing with the Commission is an electronic copy of the Company's new proposed tariff Schedules 72 (electric) and 172 (natural gas), "Permanent Federal Income Tax Rate Credit," and 74 (electric) and 174 (natural gas), "Temporary Federal Income Tax Rate Credit".

I. PURPOSE AND BACKGROUND OF REPORT AND FILING

As noted in the Commission's Order No. 33965 dated January 17, 2018, on December 22, 2017, the President signed the Tax Cuts and Jobs Act of 2017 ("TCJA") into law. A main feature of the TCJA reduced the federal corporate tax rate from 35% to 21%, effective January 1,

2018. This significant tax rate reduction materially decreases the current and deferred tax expense currently included in customers' rates.

In addition, the TCJA also resulted in excess deferred income tax assets and liabilities (including both "protected" and "unprotected," as discussed further below[1]) which have been labeled by the Company as a permanent benefit (plant excess ADFIT) or labeled as a temporary benefit (non-plant excess ADFIT).

The purpose of this report, as requested by the Commission, is to identify and quantify the TCJA changes affecting the Company's costs and its impact on ratemaking for Avista. Included in this report, as described below, is 1) the "permanent" and "temporary" net tax benefit to customers from the TCJA; 2) the Company's proposal for returning these TCJA benefits to customers; 3) the federal income tax components for the year 2017, and the federal income tax components if the utility had been subject to the 2017 Tax Act's revisions to the tax code in 2017, including the 21% tax rate; and 4) discussion of the proposed tariff schedules (included as Attachment A), that reflect the revenue requirement impacts from the 2017 Tax Act.

II. PERMANENT AND TEMPORARY TAX BENEFITS AND PROPOSAL FOR RETURNING BENEFITS TO CUSTOMERS

On January 1, 2018, in compliance with Commission Order No. 33953 in Case Nos. AVU-E-17-01 and AVU-G-17-01, Avista's revised electric and natural gas base tariffs went into effect based on rates approved in that proceeding. The effective date of these base tariffs coincided with the TCJA effective date of January 1, 2018. Given Avista's existing base rates reflect new rates in effect as of January 1, 2018, for purposes of determining "permanent" benefits, including the effect of lowering the effective tax rate to 21%, and "temporary" benefits to be returned to customers over a shorter period of time[2], the Company used its recently approved general rate case (Case Nos. AVU-E-17-01 and AVU-G-17-01) data and information

[1] Avista has two main types of excess accumulated deferred income taxes (ADFIT) as defined by the Internal Revenue Code (IRC), "protected" and "unprotected". "Protected" excess ADFIT is generally defined as capital assets depreciated under IRC section 167, whereby these timing differences are required to be recorded and then reversed (i.e. normalized) over the depreciable lives of the capital assets that created the ADFIT. "Unprotected" excess ADFIT makes up the remainder of the Company's excess ADFIT, reflecting mainly non-plant related deferred assets and liabilities.

[2] For purposes of this filing, "permanent" benefits represent tax changes that impact base rates on a long-term or on-going basis, whereas "temporary" benefits represent amounts which are a one-time calculation or temporary in nature.

that was reviewed by all parties in that proceeding and approved by the IPUC for the 2018 rate effective period.[3/4]

Summary of Tax Benefits

As further described below, after giving effect to the TCJA changes, a summary of the permanent and temporary tax benefits to customers is shown in the Summary Table below:

Summary Table

Effective June 1, 2018:	**Revenue Requirement (000s)**	
Permanent Reductions (Tariff 72 / 172)[1]:	**ID Electric**	**ID Natural Gas**
1) Current/Deferred Tax Expense (35% to 21%)	$ (11,080)	$ (2,082)
2a) Plant Excess ADFIT	$ (2,660)	$ (474)
Permanent base rate change	$ (13,740)	$ (2,556)
Temporary Reductions:		
Tariff 74/174 (effective Jun 1, 2018 - May 31, 2019)[2]		
2b) Non-Plant Excess ADFIT	$ (6,302)	$ 526
3) Deferral of Jan - Apr 2018 balances	$ (5,724)	$ (1,065)
Total Tariff 74/174	$ (12,026)	$ (539)

[1]Tariff Schedules 72 (electric) and 172 (natural gas) would remain in place until included in base rate tariff schedules in the next general rate case.

[2]Tariff Schedules 74 (electric) and 174 (natural gas) would expire on May 31, 2019 unless necessary to continue due to true-up of benefits owed customers.

To the extent that results of ongoing discussions in the Avista/Hydro One merger dockets in Avista's jurisdictions (AVU-E-17-09/AVU-G-17-05 in Idaho) may impact these calculations, Avista will amend this report accordingly. In addition, after review by Staff and upon Commission order, the Company would file an update to the electric and natural gas Fixed Cost Adjustment (FCA) base values to appropriately reflect the base rate change included in the Schedule 72 (electric) / 172 (natural gas) adder schedules.

[3] For example, the Company updated its final approved electric and natural gas revenue requirement models, approved in Case Nos. AVU-E-17-01 and AVU-G-17-01, to reflect a 21% effective tax rate. The electric and natural gas revenue requirement models, with a separate adjustment reflecting each TCJA benefit, has been included with the workpapers filed with this response.

[4] The Commission requested the Company provide the federal income tax components for the year 2017, and the federal income tax components if the utility had been subject to the 2017 Tax Act's revisions to the tax code, including the 21% tax rate. As discussed further below, although the 2017 information as requested by the Commission is provided, the Company believes it is appropriate to use its most recent general rate case information for the rate effective period January 1, 2018 through December 31, 2018 to determine the TCJA benefits for customers.

Per the Summary Table above, the individual components are as follows:

1) Current and deferred income tax expense and conversion factor (or gross up to cover tax expenses) – The result of lowering the tax rate from 35% to 21% of taxable income, as well as the impact on the conversion factor, reduces current and deferred tax expense. The resulting reduction on a revenue requirement basis is **approximately $11.1 million electric and $2.1 million natural gas**. The Company proposes to reflect this tax benefit by lowering customer rates through new proposed tariff Schedules 72 (electric) and 172 (natural gas), "Permanent Federal Income Tax Rate Credit."[5]

2) Excess deferred income tax asset/liability – As of December 2017, deferred tax amounts were required to be revalued at the lower corporate rate (21%), resulting in excess deferred federal income tax reserve balances. Balances associated with regulated utility operations resulted in a balance sheet reclassification from deferred tax to deferred regulatory assets or liabilities. This revaluation impacted both plant (protected) and non-plant (unprotected) balances.[6] As a part of this item, amortization of deferred tax amounts that represent the difference between the historical 35% rate and the revised 21% rate have been determined.

   a) For Plant-related excess deferred income tax, the Company will amortize the plant DFIT balances (Regulatory Liability of $106.4 million electric and $20.5 million natural gas, per Table 2 below) in accordance with the TCJA's Average Rate Assumption Method (ARAM). The Company estimates the ARAM for Avista results in an amortization period of approximately 36 years. As shown in the Summary Table above, the annual permanent benefit from the plant excess deferred amortization (the benefit will change over time as the ARAM is not calculated on a straight-line basis), the resulting reduction on a revenue requirement basis is **approximately $2.7 million electric and $474,000 natural gas**. The Company proposes to reflect this tax benefit by lowering customer rates through new proposed tariff Schedules 72 (electric) and 172 (natural gas), "Permanent Federal Income Tax Rate Credit."

   b) For non-plant related excess deferred income tax, as shown in the Summary Table, the deferred tax benefit for **electric** to return to customers on a revenue requirement basis is **approximately $6.3 million.** For **natural gas**, the excess ADFIT results in a deferred tax asset, resulting in a **surcharge to customers of approximately $526,000**. For the net non-plant excess ADFIT surcharge, along

[5] Tariff Schedules 72 (electric) and 172 (natural gas), "Permanent Federal Income Tax Rate Credit" would remain in place until these tax benefits were included in base tariff schedules in the next general rate case. The Company proposed separate tariffs (Schedules 72/172), as opposed to adjusting base rates, so as not to alter the Commission approved base rates for year two of the Commission approved rate plan that will go into effect January 1, 2019.
[6] See definition of "protected" and "unprotected" below.

with the January – May 2018 deferred benefit (see Item 3 below), the Company proposes to return these balances to customers over a one-year amortization, beginning May 1, 2018, through separate (temporary) tariff Schedules 74/174. [7/8]

3) Deferral of January 1 – May 31, 2018 TCJA benefits – In compliance with IPUC Order No. 33965, the Company began to "immediately account for the financial benefits from the January 1, 2018 tax rate reduction to 21%," by deferring the benefits of the TCJA into a deferred regulatory liability until such time as the benefits are reflected in customer rates and the net deferred balance has been returned to customers. As shown in the Summary Table above (see also Table 3 below), the estimated deferred benefit for January 1 – May 31, 2018 is **approximately $5.7 million electric and $1.1 million natural gas**. For the net January – May 2018 deferred benefit, along with the non-plant excess ADFIT surcharge (see Item 2 above), the Company proposes to return these balances to customers over a one-year amortization, beginning May 1, 2018, through separate (temporary) tariff Schedules 74/174.[9]

Current/Deferred Tax Rate Change to 21%

The primary provision of the TCJA was a reduction in the federal corporate tax rate from 35% to 21%, reducing the current and deferred tax expense currently included in customers' rates. Avista's current retail rates, effective January 1, 2018 per Order 33953 in Case Nos. AVU-E-17-01 and AVU-G-17-01, assumed a federal corporate tax rate of 35%. To recognize the 21% tax rate, the Company has revised its revenue requirement calculation recently approved by the IPUC for the calendar year 2018 to include the impact on current and deferred tax expense. The corporate tax rate of 21% also has an effect on the gross up to cover tax expenses (conversion factor). Included as Attachments B and C with this response are the revenue requirement models previously approved in Case Nos. AVU-E-17-01 and AVU-G-17-01, updated to reflect the current tax rate of 21%, with all electronic workpapers provided as Attachment E.[10]

As shown in the Summary Table above, the result of lowering the tax rate from 35% to 21% of taxable income, as well as the impact on the conversion factor, reduces the Company's

[7] Tariff Schedules 74 (electric) and 174 (natural gas), "Temporary Federal Income Tax Rate Credit" would expire on May 31, 2019 unless necessary to continue due to true-up of benefits owed customers.
[8] To the extent the Commission would prefer other means or timing for returning these "temporary" benefits back to customers, i.e., in conjunction or timing with the Company's PGA or PCA, for example, rather than through separate tariff Schedules 74/174 effective June 1, 2018, the Company would not be opposed to such treatment.
[9] Tariff Schedules 74 (electric) and 174 (natural gas), "Temporary Federal Income Tax Rate Credit" would expire on May 31, 2019, unless necessary to continue due to true-up of benefits owed customers.
[10] These models also show the impact of the revised tax rate of 21% on the approved change in base rates effective January 1, 2019, year 2 of the Two Year Rate Plan. The effect of the 21% revised tax rate reduces the 2019 revenue requirement amount by $264,000 for electric and $66,000 for natural gas.

annual revenue requirement going forward by approximately **$11.1 million electric** and **$2.1 million natural gas**. (See Attachment B (electric) and Attachment C (natural gas), Tax Reform Adjustment #1, and supporting workpapers provided as Attachment D (.pdf) and E (electronic).)

To reflect the TCJA tax rate on current and deferred tax expense within customers' rates, the Company proposes to reduce customer's rates through new Tariff Schedules 72 (electric) and 172 (natural gas) "Permanent Federal Income Tax Rate Credit," to be effective June 1, 2018, and remain in place until such time as the tax reduction is included in base rates in a future general rate case.

Accumulated Deferred Federal Income Tax – Excess Tax Reserve

The Company has complied with the financial accounting requirements of Accounting Standards Codification ("ASC") - 740 which required recognition of the effect of certain tax law changes to be recognized in the period of enactment, in this case, December 2017. Recognition of this tax law change at December 31, 2017, resulted in the recording of excess accumulated deferred federal income tax (ADFIT) assets and liabilities.

The ADFIT balances as of December 31, 2017 (included on an end-of period basis), prior to adjustment for the TCJA corporate tax rate change to 21% is as follows in Table 1:

Table 1

Accumulated Deferred Federal Income Tax (ADFIT) Balances at December 31, 2017:			
	Avista Utility System	ID Electric	ID Natural Gas
Plant	$ (802,685,237)	$ (204,862,764)	$ (39,382,155)
Non-Plant	$ (31,206,134)	$ (18,523,295)	$ (2,326,819)

As shown in Table 1 above, Avista has both plant ($802,685,237 system) and non-plant ($31,206,134 system) related ADFIT balances as of December 31, 2017. Plant related balances are recorded in FERC Account 282. Non-plant balances are recorded in FERC Accounts 190 and 283. In order to comply with the TCJA, these tax assets/liabilities were adjusted to be 21% of the associated deferred asset/liability. The difference between the original balance recorded at 35% and the new balance recorded at 21%, was recorded as plant or non-plant excess ADFIT.

The amount of excess deferred income tax reserve (excess ADFIT) as described in Internal Revenue Code (IRC) Sec 168(i)(9)(A)(ii) as of December 31, 2017, to comply with the TCJA as shown in Table 2 below is as follows:

Table 2

Excess Deferred Federal Income Tax Reserve at December 31, 2017						
	Protected (normalized plant)			Unprotected (non-plant)		
	Avista Utility System	ID Electric	ID Natural Gas	Avista Utility System	ID Electric	ID Natural Gas
Excess Reserve	$ 320,850,109	$ 81,887,939	$ 15,741,873	$ 13,530,194	$ 4,770,382	$ (379,295)
Gross-up for taxes	$ 96,109,097	$ 24,529,136	$ 4,715,402	$ 4,052,904	$ 1,428,945	$ (113,616)
Regulatory Liability	$ 416,959,206	$ 106,417,075	$ 20,457,275	$ 17,583,098	$ 6,199,327	$ (492,911)

As shown in Table 2 above, Avista has two main types of excess ADFIT as defined by the IRC, "protected" and "unprotected."

Protected excess ADFIT is generally defined as capital assets depreciated under IRC section 167, whereby these timing differences are required to be recorded and then reversed (i.e. normalized) over the depreciable lives of the capital assets that created the ADFIT. The utility plant related excess ADFIT at December 31, 2017 system-wide was $320,850,109, exclusive of the tax gross up.[11] The share allocated to Idaho electric is $81,887,939 and to Idaho natural gas is $15,741,873. As discussed further below, the plant related excess ADFIT will be amortized over a longer period of time (approximately 36 years, following the IRS Average Rate Assumption Method or "ARAM"). The annual revenue requirement benefit to be returned to customers, therefore, will vary annually.[12] As shown in the Summary Table above, the 2018 annual tax benefit, on a revenue requirement basis, is approximately **$2.7 million electric** and **$474,000 natural gas**. (See Attachment B (electric) and Attachment C (natural gas), Tax Reform Adjustment #2, and supporting workpapers provided as Attachment D (.pdf) and E (electronic).)

[11] Embedded in the protected excess number are various basis adjustments to plant that are not specifically classified as "protected" Internal Revenue Code Section 167 amounts. The system-wide plant related deferred taxes not specifically requiring normalization treatment is $42,956,299, leaving $277,893,810 as system-wide specifically protected excess ADFIT. At this time the Company is unable to provide a Idaho-allocated breakdown of the plant "unprotected" balances. Avista uses a tax depreciation system called PowerTax to calculate tax depreciation and associated ADFIT. This system starts with Avista's book plant balances and then records what is called tax basis adjustments due to various tax timing differences. Common tax basis adjustments are accelerated depreciation which are protected, as well as unprotected items, such as Contributions in Aid of Construction (CIAC), AFUDC capitalization, and tangible repairs. These unprotected tax basis adjustments are directly tied, and essentially comingled within the basis of the underlying plant asset and associated ADFIT, and therefore are included with "protected" plant by the Company.

[12] The 2018 annual benefit to customers associated with the excess plant ADFIT is provided below.

To reflect the amortization of the excess plant ADFIT within customers' rates, the Company proposes to reduce customer's rates through new Tariff Schedules 72 (electric) and 172 (natural gas) "Permanent Federal Income Tax Rate Credit," to be effective June 1, 2018, and remain in place until such time as the amortization of the excess plant ADFIT is included in base rates in a future general rate case.

Unprotected excess ADFIT makes up the remainder of the Company's excess ADFIT, mainly representing non-plant related deferred assets/liabilities, as well as plant-related tax basis adjustments (included by the Company within its "protected" balances.) The utility non-plant related excess ADFIT at December 31, 2017 system-wide was $13,530,194, exclusive of the tax gross up. The share allocated to Idaho electric is $4,770,382 and to Idaho natural gas is a negative balance of $379,295. On a revenue requirement basis, for **electric** the tax benefit to be **returned** to customers is approximately **$6.3 million.** For **natural gas**, the amount to **surcharge** customers is approximately **$526,000**.

To reflect the non-plant excess ADFIT benefit/surcharge to customers, the Company is proposing to adjust customer's rates over a one-year period effective June 1, 2018 through May 30, 2019, through new temporary Tariff Schedules 74 (electric) and 174 (natural gas) "Temporary Federal Income Tax Rate Credit."[13]

(See Attachment B (electric) and Attachment C (natural gas), Tax Reform Adjustment #3, and supporting workpapers provided as Attachments D (.pdf) and E (electronic).)

Deferral of January 1 – May 31, 2018 TCJA benefits

Per IPUC Order No. 33965, the Company began to "immediately account for the financial benefits from the January 1, 2018 tax rate reduction to 21%," by deferring the benefits of the TCJA into a deferred regulatory liability until such time as the benefits are reflected in customer rates and the net deferred balance has been returned to customers. The monthly deferral to be recorded by the Company will include the tax benefit of reducing current and deferred income tax expense to 21%, as well as the monthly amortization of the excess plant ADFIT for the period January 1, 2018 – May 31, 2018.

[13] The non-plant excess ADFIT benefit (electric) or surcharge (natural gas) would be combined with the January 1 – May 31, 2018 deferred TCJA benefit, also to be refunded through Schedules 74 and 174, resulting in an overall benefit returned to customers over the period June 1, 2018 – May 30, 2019.

Table 3 below, (see also Summary Table above), reflects the estimated amount for the period January 1, 2018 – May 31, 2018, representing five-twelfths of the 2018 annual tax benefit of reducing current and deferred income tax expense to 21%, as well as 5 months of the 2018 annual amortization of the excess plant ADFIT.

Table 3

Estimated Excess Deferred Federal Income Tax and Current/Deferred Tax Expense Deferred for the Period January - May 2018 (000s)		
	ID Electric	ID Natural Gas
Excess ADFIT - Plant	$ 1,107	$ 197
Current/Deferred Tax Expense	$ 4,617	$ 868
Total Deferred Balance January - May 2018[2]	$ 5,724	$ 1,065

As shown in Table 3, the estimated deferred benefit on a revenue requirement basis for January – May 2018 is **approximately $5.7 million electric and $1.1 million natural gas**. (See Attachment B (electric) and Attachment C (natural gas), Tax Reform Adjustments #4 - #5 and supporting workpapers provided as Attachments D (.pdf) and E (electronic).)

To return the estimated deferred balance of the tax benefit to customers, the Company is proposing to adjust customer's rates over a one-year period effective June 1, 2018 through May 30, 2019, through new temporary Tariff Schedules 74 (electric) and 174 (natural gas) "Temporary Federal Income Tax Rate Credit."

Although for reporting purposes here the Company has estimated these balances, the Company will track and compare any actual deferrals recorded by the Company for the period January 1, 2018 - May 31, 2018 versus that estimated.

Furthermore, with the limited amount of time since the legislation has been signed into law, not all impacts of the TCJA on the Utility are known at this time. For example, there may be additional interpretations and rulings from government agencies related to the law which may result in additional adjustments up or down.[14] The Company, therefore, believes it necessary to

[14] For example, the Company is in the process of determining the impact of FERC Docket No. EL-18-75-000 directing Avista to either (i) propose revisions to our transmission rate to reflect the change in corporate income tax rate, or (ii) show cause why we should not be required to make such a change. A filing by Avista is due in mid-May. At this time the Company does not know the impact on its transmission or retail customers.

continue to track any appropriate differences through the deferred regulatory liability as a result of 1) differences between estimated amounts for the January – May 2018 deferral returned to customers beginning June 1, 2018, versus actual amounts recorded for January through May 2018; and 2) unanticipated tax effects from changes in tax legislation. This difference, up or down, could be included in Schedule 74/174 as a true-up, if necessary, or deferred until the next general rate case. This tracking adjustment would also provide the opportunity for Staff and interested parties to complete their audit of Avista's filings and capture any necessary changes.

III. TAX BENEFIT RESULTS USING 2017 CALENDER YEAR RESULTS

Per IPUC Order No. 33965 each regulated utility "must disclose the federal income tax components for the year 2017, and the federal income tax components if the utility had been subject to 2017 Tax Act's revisions to the tax code, including the 21% tax rate." As shown in Attachment F, in 2017 the Idaho current and deferred FIT expense was approximately \$20.63 million electric and \$4.57 million natural gas. If the 2017 Tax Act's revisions to the tax code, including the 21% tax rate, had been in place during 2017, the revised current and deferred FIT expense for Idaho would have been approximately \$12.61 million electric and \$2.83 million natural gas. This would have resulted in a reduction in current and deferred FIT expense for Idaho of approximately \$8.02 million electric and \$1.74 million natural gas, a revenue requirement reduction (or benefit to customers) of approximately \$10.77 million electric and \$2.34 million natural gas.[15]

As noted above, the Company believes it is appropriate to use <u>the most recent approved rates</u> in effect as of January 1, 2018 for rate year 2018, per Commission Order No. 33953 in Case Nos. AVU-E-17-01 and AVU-G-17-01, to determine the tax benefit for customers beginning January 1, 2018. The results of using the current rates effective January 1, 2018, as noted in the Summary Table above, results in a current and deferred tax expense benefit of approximately \$11.08 million electric and \$2.08 million natural gas. Table 4 below summarizes the difference between updating 2017 actual results with a 21% effective tax rate, versus updating customers current approved rates in effect January 1, 2018 with a 21% effective tax rate:

[15] System amounts of the federal income tax components for the year 2017, and the federal income tax components if the utility had been subject to 2017 Tax Act's revisions to the tax code, including the 21% tax rate, are also shown in Attachment F, as required per IPUC Order No. 33965.

Table 4

Difference in Tax Benefit of Using 2017 Results versus Current Approved Rates		
	ID Electric	ID Natural Gas
Tax Benefit Using Actual 2017 Results with 21% Effective Rate	$ (10,769)	$ (2,337)
Tax Benefit Using Current Approved Rates (Effective Jan. 1, 2018) with 21% Effective Rate	$ (11,080)	$ (2,082)
Net Benefit/(Reduced Benefit) of using 2018 GRC Approved vs 2017 Actual	$ 311	$ (255)

As shown in Table 4 above, using the current approved rates for Rate Year 2018 per Case Nos. AVU-E-17-01 and AVU-G-17-01, adjusted to reflect a 21% tax rate, produces similar results as that produced if 2017 actual results had been revised using a 21% tax rate. However, although the results are similar, the Company believes given that its rates have been recently reset (January 1, 2018), coincident with the Tax Act, updating Avista's current general rates using the most current approved rates in effect as of January 1, 2018 is more appropriate.

IV. PROPOSED TARIFF SCHEDULES

As previously stated, the Company is proposing new tariff Schedules 72 (electric) and 172 (natural gas) for the "Permanent Federal Income Tax Rate Credit," and 74 (electric) and 174 (natural gas) for the "Temporary Federal Income Tax Rate Credit". The Company is proposing to spread both the permanent and temporary portions of the Rate Credits on a uniform percent of base revenue basis for both electric and natural gas. The Company chose this method because it generally matches how costs are presently being recovered from customers. For the spread of the Rate Credit within each service schedule (i.e., rate design), the Company applied a uniform cents per kWh (electric) and therm (natural gas) to the volumetric block rates by rate schedule. The permanent portion being passed back through rate schedules 72 and 172 will remain in effect until such time that these tax benefits are incorporated into base rates in a future general rate case proceeding. The temporary portion being passed back through rate schedules 74 and 174 will be in effect for a one-year period beginning June 1, 2018. The combined average residential bill impact for a customer using 910 kWh's per month would be a reduction of $9.09, or 9.7%. The combined average residential bill impact for a customer using 63 therms per month would be a reduction of $2.71, or 5.4%.

Please direct questions on this matter to Liz Andrews at (509) 495-8601.

Sincerely,

Patrick Ehrbar
Director of Regulatory Affairs

Enclosures

CAUSE NO. 45029

VERIFIED DIRECT TESTIMONY

OF

FRANK J. SALATTO

ON BEHALF OF

INDIANAPOLIS POWER & LIGHT COMPANY

REVISED TO REFLECT THE TAX CUTS AND JOBS ACT

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**VERIFIED DIRECT TESTIMONY OF FRANK J. SALATTO
ON BEHALF OF
INDIANAPOLIS POWER & LIGHT COMPANY**

Q1. Please state your name, employer and business address.

A1. My name is Frank J. Salatto. I am employed by AES U.S. Services, LLC, the service company of Indianapolis Power & Light Company ("IPL" or "Company"). My business address is One Monument Circle, Indianapolis, Indiana 46204.

Q2. What is your position with AES US Services, LLC?

A2. My title is Director, US Tax Reporting. My primary responsibilities are related to the regulated utilities.

Q3. Please describe your duties as Director, US Tax Reporting.

A3. I manage all aspects of federal and state income, property, sales and use tax for the regulated businesses, including IPL. I work closely with the accounting, finance, legal, operations and development teams.

Q4. Please summarize your educational and professional qualifications.

A4. I hold a Bachelor of Science degree in Accounting from the University of Maryland and have passed the Certified Public Accountant exam.

Q5. Please summarize your prior work experience.

A5. I have over 25 years of experience in income taxes and tax accounting, primarily with regulated electric utilities. I previously worked for Pepco Holdings, Inc. (PHI) and its predecessors in various levels of responsibility including as Manager of Income and Regulatory Tax Accounting and Reporting. My particular area of focus was in PHI's

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regulated utilities – Pepco, Delmarva Power and Light and Atlantic City Electric. In that role, I was responsible for the tax accounting, filing of tax returns and the development and defense of PHI's tax positions before the IRS and state.

Q6. Have you previously testified before the Indiana Utility Regulatory Commission ("IURC" or "Commission") or other regulatory agencies?

A6. I have not testified before the IURC. However, I have testified before the utility rate commissions in Maryland, the District of Columbia and Delaware in a variety of cases regarding the provision of taxes for Pepco and Delmarva Power and Light.

Q7. What is the purpose of your testimony in this proceeding?

A7. The purpose of my testimony in this proceeding is to present and support the federal, state, and local income taxes to which IPL is subject. I am also responsible for the calculation of the gross income conversion factor and adjustments to certain taxes other than income taxes. My testimony includes a discussion of the Tax Cuts and Jobs Act of 2017 ("TCJA").

Q8. Are you sponsoring any exhibits or schedules?

A8. Yes. I have updated all the financial exhibits filed along with my originally filed direct testimony to reflect the impacts of the TCJA and I continue to sponsor the following:

- <u>IPL Financial Exhibit IPL-REVREQ, Schedule REVREQ2-T</u> –Gross Revenue Conversion Factor
- <u>IPL Financial Exhibit IPL-OPER, Schedule OTX1-T</u> – Summary of Taxes Other Than Income Taxes
- <u>IPL Financial Exhibit IPL-OPER, Schedule OTX2</u> – Real Estate and Personal Property Taxes, Including Rail Car Tax

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- IPL Financial Exhibit IPL-OPER, Schedule OTX4-T – Indiana Utility Receipts Tax
- IPL Financial Exhibit IPL-OPER, Schedule TX1-T – Summary of Income Tax Expense
- IPL Financial Exhibit IPL-OPER, Schedule TX2-T – Current Federal Income Tax Expense
- IPL Financial Exhibit IPL-OPER, Schedule TX3-T – Current State Income Tax Expense
- IPL Financial Exhibit IPL-OPER, Schedule TX4-T – Deferred Federal and State Income Tax Expense
- IPL Financial Exhibit IPL-OPER, Schedule TX-5 – Investment Tax Credit Adjustments
- IPL Financial Exhibit IPL-OPER, Schedule TX6-T – Interest Synchronization
- IPL Financial Exhibit IPL-OPER, Schedule TX-7 – Imputation of Parent Company Interest
- IPL Financial Exhibit IPL-OPER, Schedule TX8-T – Effective Income Tax Rate

Q9. Were the Exhibits or portions of the Exhibits that you are sponsoring prepared or assembled by you or under your direction or supervision?

A9. Yes.

Q10. Did you submit any workpapers?

A10. Yes. The calculations shown on the schedules identified above have been cross-referenced, when appropriate, to the workpapers which provide additional detailed support for these calculations. Where appropriate, the workpapers were updated to reflect the impacts of the TCJA.

Q11. Please explain the normalization method of accounting used for income taxes and ratemaking.

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determining tax expense, the rate at which IPL's income will taxed should be used. The Commission indicated that the correct rate to be used to determine the rates going forward is the tax rate in effect during the rate effective period. In this instance, the rate used in the calculation of state income taxes in this case is 5.875%. This is the statutory rate for 2018, the period we anticipate the order in this case to become effective.

Q19. Please explain IPL Financial Exhibit IPL-OPER, Schedule TX4-T – Deferred Federal and State Income Tax Expense.

A19. This schedule shows the itemization of the components of federal and state deferred income tax expense at present and proposed rates. Line 48 of this schedule calculates the impact of the newly enacted 21% tax rate on the per books amounts shown in Column 1 which are calculated at the then appropriate 35% tax rate for the test year. The totals on lines 3 and 4 of IPL Financial Exhibit IPL-OPER, Schedule TX1-T are drawn from lines 45-51 from IPL Financial Exhibit IPL-OPER, Schedule TX4-T. Each component feeding the calculation of deferred income tax is listed in this schedule.

Q20. Please explain IPL Financial Exhibit IPL-OPER, Schedule TX5 – Investment Tax Credit (ITC) Adjustments.

A20. This schedule reflects the test year amortization of Investment Tax Credits previously reflected on Federal tax returns over the service life of the property that generated the credits.

Q21. Please explain IPL Financial Exhibit IPL-OPER, Schedule TX6-T – Interest Synchronization.

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A21. IPL Financial Exhibit IPL-OPER, Schedule TX6-T shows the calculation of the amount of interest expense deduction used by the Company for purposes of computing income tax expense. This amount is calculated by multiplying the adjusted original cost rate base reflected on IPL Financial Exhibit IPL-RB, Schedule RB-2, which is sponsored by IPL Witness Forestal, by the weighted cost of long-term debt. This interest expense deduction methodology is consistent with the last Commission Order.

Q22. Please explain IPL Financial Exhibit IPL-OPER, Schedule TX8-T – Effective Tax Rate.

A22. IPL Financial Exhibit IPL-OPER, Schedule TX8 calculates the Company's effective tax rate after taking into consideration permanent and flow-through timing differences and investment tax credit amortization. The total effective tax rate before rate relief is 11.32% and is calculated by dividing total income tax expense by pre-tax electric operating income including interest expense. This effective income tax rate includes the reduction to the new statutory of 21% as well as the proposed amortization of the excess accumulated deferred income taxes ("ADIT") which are discussed in more detail later in this testimony.

Q23. On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was signed into law. Have the impacts of the changes to the tax law been incorporated into the Company's revenue requirement calculations?

A23. Yes, the tax schedules and revenue requirement calculations have been updated for the changes resulting from the new tax law. I discuss this below. IPL Witness Forestal also summarizes the impact of the TCJA on the revenue requirement in his supplemental testimony and explains how the TCJA is reflected in the Company's exhibits.

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Q24. What changes were made to reflect the impacts of TCJA?

A24. The largest change was to reduce the corporate tax rate from 35% to 21%. Tax expense was also adjusted to remove the deduction for domestic manufacturing production (IRC Section 199) which was repealed effective January 1, 2018.

Additionally, ASC 740 (the accounting guidance that governs tax accounting) requires that accumulated deferred income taxes (ADIT) be measured at the tax rate at which they are anticipated to reverse and that, in the event of a tax rate change, the ADIT should be re-measured in the period that the new tax rates are signed into law. Therefore, the Company re-measured its ADIT and recorded a regulatory liability as of December 31, 2017, for the difference between the ADIT accrued at 35% and the re-measured balance calculated at 21%. The difference between the ADIT calculated at 35% and 21% is commonly referred to as excess ADIT. Included in the update to IPL's filing to reflect the impacts of TCJA, is the expected 2018 reversal of the resulting excess ADIT which are included in the calculation of current tax expense. IPL Witness Forestal explains how the Company incorporated the amortization of the excess ADIT into the capital structure.

In total, the TCJA reduced income tax expense at proposed rates in this rate filing from $71.885million to $35.053million.

Q25. What are excess ADIT?

A25. Deferred income taxes liabilities are created when the deductions taken on tax returns are greater than the related expenses included in book income. These differences between the book and tax amounts are temporary and "reverse" when the book expense amount is greater than the related amount included on the tax return. Excess ADIT arise when the deferred tax liabilities are created at a tax rate which is higher than the rate expected to be

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in effect when the deferred tax liability reverses. In this case, IPL's deferred income taxes were originally measured at 35% and will reverse when the tax rate is 21%. For example, assume the Company acquires an asset costing $1,000 and depreciates that asset for regulatory purposes over five years using straight line depreciation. For tax purposes, that same asset is depreciated over 3 years. Assume further that the tax rate changes from 35% to 21% starting in year 4 and that after 3 years the asset is fully depreciated for tax purposes and has a remaining book basis of $400. At the end of year 3, the Company has a deferred tax liability ("DTL") of $140 ($400 x 35%). Because of the tax rate change, the Company's deferred tax balance must be re-measured at the new tax rate thereby lowering the DTL from $140 to $84 ($400 x 21%). The $56 difference between the $140 and $84 represents the excess ADIT.

Q26. How will the excess ADIT amount reverse and be reflected in the ratemaking process?

A26. Excess ADIT falls into two categories, which I refer to herein as "normalized" and "non-normalized". The treatment of the normalized excess ADIT is provided in the TCJA. Section 13001(d) of the TCJA provides that "[A] normalization method of accounting shall not be treated as being used with respect to any public utility property for purposes of section 167 or 168 of the Internal Revenue Code of 1986 if the taxpayer, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method." Therefore, the excess ADIT associated with differences between book and tax lives and book and tax depreciation methods are required to be reversed using the average rate assumption

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method (ARAM) so as to comply with the normalization provisions of the Internal Revenue Code.

For the excess ADIT associated with other book and tax differences (*e.g.*, deferred taxes related to pension and post-retirement benefits, allowance for doubtful accounts, etc.), the reversal period is more discretionary. This is the "non-normalized excess ADIT".

Q27. How does average rate assumption method ("ARAM") work?

A27. The Joint Explanatory Statement released by the staffs of the Senate and House conferees describes ARAM as the reduction of "the excess tax liabilities over the remaining regulatory lives of the property that gave rise to the reserve for deferred taxes during the years which the deferred tax reserve related to such property is reversing. Under this method, the excess tax reserve is reduced as the timing differences (*i.e.*, differences between tax depreciation and regulatory depreciation with respect to the property) reverse over the remaining life of the asset. The reversal of timing differences generally occurs when the amount of the tax depreciation taken with respect to an asset is less than the amount of the regulatory depreciation taken with respect to the asset. To ensure that the deferred tax reserve, including the excess tax reserve, is reduced to zero at the end of the regulatory life of the asset that generated the reserve, the amount of the timing difference which reverses during a taxable year is multiplied by the ratio of (1) the aggregate deferred taxes as of the beginning of the period in question to (2) the aggregate timing differences for the property as of the beginning of the period in question."

I am including an example of the calculation that was provided in the Joint Explanation publication based on an asset with a total cost of $100, a straight line 10-year book life and a 5-year tax life depreciated using double declining balance:

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Example of the Average Rate Assumption Method (ARAM)

	2016	2017	2018	2019	2020	2021**	2022	2023	2024	2025	Total
Tax Depreciation	20.00	32.00	19.20	11.52	11.52	5.76	-	-	-	-	100.00
Book Depreciation	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	100.00
Temporary Difference	10.00	22.00	9.20	1.52	1.52	(4.24)	(10.00)	(10.00)	(10.00)	(10.00)	-
Tax Rate	35%	35%	21%	21%	21%	31.1%	31.1%	31.1%	31.1%	31.1%	
Annual Deferred Tax Activity	3.5	7.7	1.9	0.3	0.3	(1.3)	(3.1)	(3.1)	(3.1)	(3.1)	-
Annual deferred tax activity @ 21%						(0.9)	(2.1)	(2.1)	(2.1)	(2.1)	
Annual adjustment at average deferral rate						(1.3)	(3.1)	(3.1)	(3.1)	(3.1)	
Reversal of excess deferred tax						0.4	1.0	1.0	1.0	1.0	4.5

Total deferred taxes through 2020	13.77
Total temporary differences through 2020	44.24
Average deferral rate	31.1%

** 2021 is the first year where book depreciation is greater than tax depreciation and, consequently, the first year the excess deferred tax amount starts to reverse.

Q28. What is the amount of the excess ADIT related to the items required to be normalized, *i.e.*, the normalized excess ADIT?

A28. While the final amount of the excess ADIT amount will not be known until after the Company files its 2017 tax return , which is expected to be in September 2018, the current estimate is $99 million (excluding the gross-up for income taxes). The estimated $99 million normalized excess ADIT amount is reasonable as it was computed based upon the remeasurement of the deferred taxes required as part of the Company's year-end income tax provision process. Consequently, the estimated excess ADIT is based on the most recent amounts known and available as of December 31, 2017.

The calculation was completed through IPL's tax depreciation and provision software – PowerTax. The mechanics of the calculation are to multiply the cumulative temporary difference for a specific type of book/tax difference, which is tracked and maintained in PowerTax, by the new tax rate and compare that result to the existing deferred tax

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balance. The difference between the two amounts is the excess ADIT for that temporary difference.

Q29. What are "cumulative temporary differences"?

A29. Cumulative temporary differences represent the total differences between the deductions and income reported on the Company's tax returns and what has been recorded on its books; these amounts are tracked at a specific book/tax difference level. These differences are the support for the Company's deferred tax balances.

Q30. What is the remaining amount not subject to the normalization rules, *i.e.,* the non-normalized excess ADIT?

A30. As with the estimated excess amount required to be normalized, the final amounts will not be known until the 2017 tax return is filed. However, the current estimate is $44.3 million (excluding the gross-up for income taxes). We believe the non-normalized excess ADIT estimate is reasonable for the same reasons as the normalized excess ADIT. The process, timing and method of calculation used to estimate the non-normalized excess ADIT amount were the same as was used to estimate the normalized excess ADIT.

Q31. How will the normalized excess ADIT amount amortize into tax expense?

A31. The Company is proposing an amortization period of 25 years as a proxy until the actual ARAM amortization calculation is complete. This results in a reversal of approximately $4.0 million which reduces the Company's income tax expense for test year. We are proposing a 25-year amortization period for the test year since we believe that it

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represents a reasonable estimate of the timing of the amortization of the excess ADIT in compliance with ARAM.

Q32. How is the Company proposing to amortize the non-normalized excess ADIT amount?

A32. The Company is proposing a ten-year amortization period for the non-normalized excess ADIT amount. This results in amortization of approximately $4.5 million which reduces the Company's income tax expense for test year. We believe 10 years is the appropriate time to reverse this excess because that time frame represents a good balance of the timing of the book reversals. For example, the deferred taxes related to bad debts reverse every year while the deferred taxes related to pensions reverse over a significantly longer period and book to tax basis differences on plant assets reverse over the book life. While the reversal of the non-normalized excess ADIT is not required to be linked specifically to the book reversals giving rise to the excess deferred tax amount, the Company believes this time frame provides a reasonable manner to reverse these amounts.

Q33. When will the amortization of the excess ADIT start?

A33. In keeping with the normalization rules, the amortization of the normalized excess ADIT will start in January 2018 as the book depreciation is recorded. The non-normalized ADIT will start when the Commission determines the amortization period.

Q34. Since the final calculation of the reversal of the excess ADIT required to be normalized is not complete and an estimate is being used in place of an actual amount, how does the Company suggest to account for the difference between the estimate and the actual amount so as to avoid a normalization violation?

REVISED

A34. IPL is requesting that the Commission authorize the Company to defer as a regulatory asset or regulatory liability the difference between the actual excess ADIT amortization and the amount included in rates beginning on the date rates are implemented in this proceeding until rates are set in a subsequent base rate proceeding. To the extent that the actual annual amortization differs from the estimated amount, the amortization of the non-normalized excess ADIT will be increased or decreased to ensure that the total amortization of normalized and non-normalized excess ADIT is equal to $8.5 million. This is the sum of the amortization of the normalized excess ADIT ($4.0 million) and the non-normalized excess ADIT ($4.5 million). This accounting treatment is necessary to ensure the Company remains in compliance with tax normalization requirements, therefore avoiding a tax normalization violation.

Q35. Does that include conclude your verified pre-filed direct testimony?

A35. Yes.

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State Corporation Commission
of Kansas

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of the Application of Kansas City	**)**	
Power and Light Company to Make Certain	**)**	**Docket No. 18-KCPE-480-RTS**
Changes in Its Charges for Electric Service.	**)**	

DIRECT TESTIMONY

PREPARED BY

JUSTIN T. GRADY

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION

September 12, 2018

Contents

I. Introduction, Qualifications, Purpose of Testimony

Q. Please state your name and business address.

A. My name is Justin T. Grady and my business address is 1500 Southwest Arrowhead Road, Topeka, Kansas, 66604.

Q. By whom and in what capacity are you employed?

A. I am employed by the Kansas Corporation Commission (KCC or Commission) as the Chief of Accounting and Financial Analysis.

Q. Please summarize your educational and employment background.

A. I earned a Master of Business Administration degree, with a concentration in General Finance which includes emphases in Corporate Finance and Investment Management, from the University of Kansas in December of 2009. I also hold a Bachelor of Business Administration degree with majors in Finance and Economics from Washburn University. I have been employed by the KCC in various positions of increasing responsibility within the Utilities Division since 2002. I have been employed in my current capacity since May 2012.

While employed with the Commission, I have participated in and directed the review of various tariff/surcharge filings and rate case proceedings involving electric, natural gas distribution, water distribution, and telecommunications utilities. In my current position, I have supervisory responsibility for the activities of the Commission's Audit section within the Utilities Division. In that capacity, I plan, manage, and perform audits relating to utility rate cases, tariff/surcharge filings, fuel cost recovery mechanisms, transmission delivery charges, alternative-ratemaking mechanisms, and other utility filings which may have an impact on utility rates in Kansas including mergers, acquisitions, and restructuring filings.

Q. Have you previously submitted testimony before this Commission?

A. Yes. I have submitted written and oral testimony before this Commission on multiple occasions regarding various regulatory accounting and ratemaking issues. This work includes testimony filings in 54 dockets, including this one. A list of the other dockets that encompass this experience is available upon request.

Q. What is the purpose of your testimony in this matter?

A. In the testimony that follows, I will present and support Staff's positions regarding the following topics, in the order that they will appear in my testimony:

1. the impact of the Tax Cuts and Jobs Act on the revenue requirement calculation in this Docket;

2. Staff's recommendation not to update certain categories of expenses beyond the test year; and

3. Staff's recommendation to require KCP&L to track depreciation expense associated with Montrose Units 2 and 3 (and associated common equipment) in a Regulatory Liability account until KCP&L's next rate case.

II. Executive Summary

Q. Please provide an executive summary of your testimony.

A. In the testimony that follows, I will present and support the following conclusions:

- KCP&L has reflected the impact of the Tax Cuts and Jobs Act (TCJA) on the revenue requirement in this rate case. The total impact of this change is an ongoing reduction to the revenue requirement of $32,935,719, when calculated assuming Staff's recommended 9.3% Return on Equity (ROE). However, Staff believes that the revenue requirement should be reduced by another $7,486,316 to recognize the amortization of Excess Deferred Income Taxes (EDIT) associated with a Deferred Tax Asset (DTA) related to KCP&L's Net Operating Losses (NOLs) over the same time period as KCP&L is amortizing its "protected"[1] EDIT associated with Deferred Tax Liabilities (DTL).[2] Additionally, as discussed in Staff witness William Baldry's testimony, Staff is recommending changes to update the deferred tax balances and exclude/include certain deferred tax balances from KCP&L's rate base, which also impacts the amount of EDIT amortization that is used to reduce the revenue requirement. The impact of Mr. Baldry's adjustments results in an additional reduction to the revenue requirement of $1,095,921, for a total reduction of $41,517,956 to Staff's revenue requirement related to the TCJA.
- In addition to the ongoing reduction to the revenue requirement identified above, KCP&L should provide a bill credit to Kansas customers in the amount of $37,354,878, which should be distributed to customers in the fashion that Staff witness Dr. Robert Glass recommends in his Direct Testimony.[3] This credit represents the regulatory liability of $31,766,553 from Appendix 1 of the

[1] "Protected" refers to the normalization requirements in Section 13001 of the TCJA. This provision requires EDIT related to book/tax timing differences originating from the difference between accelerated depreciation for tax purposes and straight-line depreciation for regulatory purposes, to be amortized over the life of the assets using the Average Rate Assumption Method (ARAM) or acceptable alternative (Reverse South Georgia Method) <u>if</u> ARAM is not possible due to company record keeping practices.
[2] The work papers supporting this adjustment are found in Exhibit JTG-1.
[3] See Staff Exhibit JTG-2 for support of the amount of $37,354,878.

Settlement Agreement in Docket No. 18-GIMX-248-GIV, as adjusted to reflect the addition of interest expense at the annual rate of 1.62%[4] compounded monthly, which totals $32,041,123. Additionally, this credit includes the benefit of $5,313,755 of amortization of EDIT that has accrued to a deferred revenue account from January 1, 2018, through June 30, 2018.[5]

- Staff recommends that the Commission reject certain KCP&L adjustments to update expense items outside of the test year to reflect expenses incurred through June 30, 2018. These expense items relate to Information Technology (IT) Maintenance, Distribution Maintenance, Generation Maintenance, and Nuclear Maintenance expenses.[6] As discussed in more detail below, Staff does not recommend the Commission update these expense categories because each of these are categories that KCP&L expects to achieve significant reductions in expense as a result of the recently-completed merger with Westar Energy, Inc. (Westar). Staff contends that making these adjustments would not result in a revenue requirement which represents KCP&L's ongoing, normalized cost of operations. Updating these costs to the high water mark, right before these costs are expected to decline significantly, would not result in just and reasonable rates that are in the public interest.

[4] 1.62% is the current annual interest rate being paid to utility customers for customer deposits held by the utility.
[5] This deferred revenue account captures the impact of KCP&L's amortization of EDIT through June 30, 2018. Since the balance of EDIT is being used to offset rate base until being given back to customers through a rate credit or amortization to the cost of service, there is no need to calculate interest expense on this rate credit. Importantly, June 30, 2018, is the date that is synchronized with KCP&L's updated Plant in Service, Accumulated Depreciation, and Accumulated Deferred Income Tax (ADIT) balances (including the unamortized portion of EDIT), as updated in Staff's revenue requirement calculations. Accordingly, all EDIT balances that are not going back to customers in this case are still reflected as a reduction to rate base.
[6] Staff Exhibit JTG-3 presents these items in more detail.

- Staff recommends that the Commission require KCP&L to use a Regulatory Liability to track the Depreciation Expense associated with two coal-fired generating units that are expected to retire around the same time as the implementation of rates in this case. As discussed in the testimony of Staff witness Roxie McCullar, Montrose Units 2 and 3 (and all associated common equipment) are expected to retire by December 31, 2018. Because the revenue requirement set in this case will include $10,929,019 of depreciation expense associated with these units, it is imperative that the Commission require KCP&L to capture this depreciation expense in a Regulatory Liability.[7] This is because once these units retire, Accumulated Depreciation will no longer be recorded for these units, raising the possibility that customers' payment of depreciation expense for these units will not be recognized in the next rate case. This Regulatory Liability would start being recorded at the retirement date for these units and would continue through the effective date of rates during KCP&L's next rate case. At that time, the balance in this Regulatory Liability should be closed to Accumulated Depreciation in order to reflect the fact that customers have continued to pay KCP&L for the return of these units even after they have retired. This issue is also discussed in Staff Witness Roxie McCullar's testimony.

[7] See Staff Exhibit JTG-4 for support of the derivation of this number.

III. Tax Cuts and Jobs Act of 2017

A. Background

Q. Please provide a background discussion on this topic.

A. The Tax Cuts and Jobs Act (TCJA) was signed into law on December 22, 2017.[8] Among other changes, the law changed the federal corporate tax rate from an inclining rate with a maximum rate of 35% to a flat 21%. In anticipation of the law taking effect, Staff requested the Commission open a General Investigation into the effects of the TCJA and requested that the Commission take action to preserve, for the benefit of ratepayers, the reduction in federal tax benefits. On January 18, 2018, the Commission issued its Order Opening General Investigation and Issuing Accounting Authority Order Regarding Federal Tax Reform in Docket No. 18-GIMX-248-GIV (18-248 Docket).[9]

B. General Investigation (Docket No. 18-GIMX-248-GIV)

Q. What did the Commission's Order in the 18-248 Docket require?

A. The Commission's Order required all jurisdictional public utilities in Kansas that are taxable at the corporate level to defer to a Regulatory Liability the difference between the cost of service last approved by the Commission and the cost of service that would have resulted had the provision for federal income taxes been based upon a 21% corporate tax rate. Additionally, the Commission confirmed that taxable utilities operating in Kansas should consider the portion of their operating revenue that reflects the higher corporate income tax expense to be interim, subject to refund, with interest. Last, the Commission

[8] *Tax Cuts and Jobs Act*, Public Law No. 115-97; Statute 131 Stat. 2054 (Dec. 22, 2017).
[9] See http://estar.kcc.ks.gov/estar/portal/kscc/page/docket-docs/PSC/DocketDetails.aspx?DocketId=1314e178-bfbd-4925-b3e3-7dfa0ff11744.

confirmed that it intended to capture excess ADIT for the benefit of ratepayers using a methodology that is consistent with Internal Revenue Service (IRS) Tax Normalization Rules, whether contained within the TCJA itself or IRS Tax Normalization Rules, as applicable.

C. Developments after the Commission Order in 18-248 Docket

Q. What has transpired since the Commission issued its Order in the 18-248 Docket?

A. Since the Commission's Order in the 18-248 Docket, Staff has discussed with each of the major utilities operating in Kansas their plan for complying with the Commission's Order and to revise permanent rates to reflect the reduction in the federal corporate tax rate. Specific to KCP&L, both prior to and shortly after the Commission issued its Order in the 18-248 Docket, Staff met with KCP&L to discuss the impact of the TCJA on KCP&L's regulated business operations. Of course, Staff also was aware that KCP&L was planning on filing a rate case in the first half of 2018.

When KCP&L filed its rate case on May 1, 2018, it included the effect of the TCJA on its revenue requirement request, including the amortization of EDIT to the provision for income tax expense in the revenue requirement. KCP&L's Application also included a recommended bill credit to customers as a proposal to dispose of the regulatory liability that it anticipated recording during the period of January 1, 2018, and the effective date of initial rates in this Docket related to the reduction in its regulated cost of service associated with the TCJA. However, this bill credit was contingent upon the Commission's approval of the then-pending settlement agreement in the Westar and KCP&L merger docket, Docket No. 18-KCPE-095-MER (18-095 Docket). This is discussed on pages 14-16 of the Direct Testimony of Darrin R. Ives.

D. Settlement Agreements Relative to TCJA and KCP&L's Rate Case

Q. What Settlement Agreements are related to the impact of the TCJA on KCP&L's rate case?

A. Staff, CURB, KCP&L and other parties have been parties to two relevant Settlement Agreements. The first is the Settlement Agreement in the 18-095 Docket in which KCP&L agreed to forego its ability to advocate for any offsets (associated with claimed under-earnings at the time of the implementation of the TCJA) to the level of Regulatory Liability being recorded as a result of the Commission's Order in the 18-248 Docket, as long as the merger was approved and closed. Second was the Settlement Agreement in the 18-248 Docket, filed on June 1, 2018, which confirmed the amount of the Regulatory Liability being recorded, by month, and confirmed that all other issues related to the implementation of the TCJA and its impact on KCP&L's rates are being deferred to this rate case, including: EDIT; disposition of the Regulatory Liability; and determination of customer credits.

E. Impact of TCJA on Staff's Revenue Requirement Recommendation

Q. What is the impact of the TCJA on Staff's Revenue Requirement in this Docket?

A. Staff's revenue requirement recommendation contains the effects of a net revenue requirement reduction of $41,517,956 associated with the federal corporate tax reduction. This consists of the following: 1) KCP&L's filed recommendation which lowered the revenue requirement by $32,935,719 (when calculated with the 9.3% ROE); 2) Staff's recommended further reduction of $7,486,316, which amortizes the EDIT associated with NOL DTA (Net Operating Loss related Deferred Tax Asset) over the same time period as

KCP&L amortizes its protected DTL;[10] and 3) Staff's recommended changes to update the amounts and make changes to the list of deferred tax balances included in rate base, which has an effect on the amortization of EDIT and further reduces the revenue requirement by $1,095,921.[11] Additionally, Staff recommends that KCP&L be required to provide a bill credit of $37,354,878, which represents the following: 1) the Regulatory Liability required by the Commission Order in the 18-248 Docket adjusted to account for interest expense compounded monthly during the period of January 1, 2018, to December 31, 2018, in the amount of $32,041,123; and 2) the benefit of $5,313,755 of amortization of EDIT that has accrued to a deferred revenue account from January 1, 2018, through June 30, 2018.[12] Staff witness Robert Glass provides the Commission Staff's recommendation on how to distribute the $37,354,878 bill credit to customers.

F. Staff's Adjustment to Amortize EDIT on NOL DTA using ARAM

Q. Please describe Staff's adjustment you referred to in the previous section that lowered Staff's revenue requirement by $7.48 million.

A. This adjustment pertains to the time period over which Staff is recommending to amortize the EDIT[13] created when the federal corporate tax rate was lowered from 35% to 21% on January 1, 2018, specifically the EDIT associated with KCP&L's Net Operating Losses related Deferred Tax Asset (NOL DTA). This issue is discussed in the testimony KCP&L

[10] See Staff Exhibit JTG-1.
[11] This is addressed in the testimony of Staff witness William Baldry.
[12] See Staff Exhibit JTG-2 for the support for the $37,354,878 in customer bill credits.
[13] EDIT relates to the portion of ADIT that is no longer payable at some point in the future to taxing authorities. EDIT that relates to depreciation and bonus depreciation related timing differences is "protected" within the TCJA, in that it cannot be amortized to the cost of service any faster than over the book lives of the assets that gave rise to the original timing difference. This is referred to as the Average Rate Assumption Method (ARAM).

witnesses Darrin Ives and Ronald Klote. Mr. Ives' discussion of this issue begins on page 14 of his Direct Testimony:

> ...the income tax expense has also been adjusted for an estimated amount of excess accumulated deferred income taxes ("ADIT") amortized back to customers. This amortization represents a portion of ADIT previously recovered from customers but not yet paid to the Internal Revenue Service ("IRS"). Since these taxes will now not be paid to the IRS, they will be given back to customers over the appropriate time period. The estimated annual amount of excess ADIT related to plant temporary differences has been computed using the normalization rules required by TCJA. Amortization of other excess ADIT related to non-plant temporary differences has been computed using various periods depending on the item it relates to. Please see the testimony of KCPL witness Klote for more details.

Mr. Ron Klote states the following on page 16 of his Direct Testimony:

> The amount of ADIT computed using the historical statutory rates versus the new federal tax rate of 21%, is considered excess ADIT. This excess ADIT remains in rate base until it is amortized and has been included in the income tax expense component of cost of service. The amortization of excess ADIT for plant related temporary differences is computed using the normalization rules included in the Tax Cuts and Jobs Act of 2017. All other excess ADIT is amortized using the appropriate time period for those items. See the adjustment for CS-125 Income Taxes for more detailed information related to the amortization of excess ADIT.

The follow up discussion related to CS-125 begins on page 47 of Mr. Klote's testimony:

> This average rate assumption method adjustment represents the amortization of excess deferred income taxes. It primarily reduces the income tax component of cost of service. During the 1980s and up until 2017, the federal tax rate was higher than 2018's 21% rate. Since deferred taxes were provided at the rate in effect when the originating timing differences were generated, the deferred income taxes were provided at a rate higher than the tax rate that is expected to be in existence when the timing differences reverse and the taxes are due to the government. This differences in rates is being amortized into the cost of service over the remaining book lives of the assets that generated the timing differences for plant related temporary timing differences and over the appropriate period of time for other non-plant related temporary differences.

Q. What time periods did KCP&L use to amortize the EDITs in the calculation of its revenue requirement?

A. In its Application, KCP&L amortized its plant-related EDIT over 29.46 years[14], its miscellaneous (non-plant) EDIT over 10 years, and the EDIT associated with its NOL DTA over five years. This results in the following amortization expense being reflected in the income statement in KCPL's filed revenue requirement:

EDIT Amortizations in KCPL's Filed Revenue Requirement (Total Company Basis)		
EDIT Amount to Amortize	Years /Amortize	Increase (Decrease) to Tax Expense
Plant Related- $(523,132,503)	29.46	$(17,757,290)
Miscellaneous- $12,045,528	10	$1,204,553
NOL DTA -$70,373,549	5	$14,074,710
		Total $(2,478,027) [15]

[14] In Response to Staff Data Request No. 158, KCP&L's estimated 2018 ARAM calculation supports an annual amortization percentage of 3.339%%, or approximately 29.5 years. $17,757,290 in ARAM amortization expense, divided by $523,132,503 in Excess Deferred Income Taxes equals 3.339%

[15] When reviewing this table, it is important to remember that these amortizations are presented in total company amounts, that is, they haven't been allocated to reflect the impact on only KCP&L's Kansas customers. Additionally, because these amounts affect income tax expense directly, they will be grossed up for income taxes in the final revenue requirement calculation. Therefore, in order to determine the impact on the Kansas revenue requirement, these amounts need to be multiplied by 46.2712%, then divided by 0.7347. Thus, the total revenue requirement impact of KCP&L's requested amortization of EDIT was approximately $(1,560,654). Lastly, the amounts in this table were updated in response to Staff Data Request No. 170A, so the amounts that Staff recommends for inclusion in the revenue requirement have different beginning balances and yearly amortizations.

Note that because KCP&L has chosen such a short time frame to amortize its NOL DTA, the resulting increase in income tax expense almost completely offsets the reduction to income tax expense associated with the amortization of plant-related EDIT. This occurs even though the plant-related EDIT is 7.5 times larger than the EDIT associated with the NOL DTA.

Q. **Why did KCPL amortize the NOL DTA over just five years, when the plant-related EDIT is amortized over 29.5 years?**

A. Staff issued two discovery requests on this topic, Staff Data Request No. 148 and No. 160. Both responses are attached to this testimony, but the relevant excerpts from them is as follows:

> Response to Staff DR No. 148
>
> The Company used straight line amortization over 5 years for the estimated amount of amortization of excess deferred income taxes for NOLs. Using the straight-line method for NOLs is not a violation of the IRS's ARAM method since it would flow-back the net protected excess deferred income taxes **less rapidly** than required under the ARAM rules. The ARAM method was created by the IRS to estimate how the plant related excess deferred income taxes would have reversed over the remaining book life of the assets it related to. The net operating loss deferred income taxes would not have reversed over the book life of assets, they will reverse as the net operating losses were used. We expect to use all of our net operating losses in the next 5 years. Therefore, using a 5 year straight-line amortization is a better reflection of how the net operating losses excess deferred income taxes would have reversed than using the IRS's ARAM method. **(Emphasis Added)**
>
> Response to Staff DR No. 160
>
> 1c. We estimate that the net operating loss deferred income taxes assets in rate base will reverse or be used in the next five years. Therefore, using a 5 year straight-line amortization is a better reflection of how the related net operating loss excess deferred income taxes would have reversed without the federal rate change. Using this method matches up the amortization of the excess deferred with the reversal of the remaining deferred tax assets

> out of rate base. Using a longer method such as the average rate assumption method would leave the NOL excess deferred income taxes in rate base for a significantly longer period of time than the deferred tax assets they related (in some cases as much as 30-40 years longer).
>
> 1d. Using the straight-line method for NOLs is not a violation of the IRS's normalization rules. **The IRS requires that the flow-back the net protected excess deferred income taxes (protected plant excess deferreds less protected NOL excess deferreds) not be more rapid than what is required under the average rate assumption method (ARAM) rules.** The ARAM method was created by the IRS to estimate how the plant related excess deferred income taxes would have reversed over the remaining book life of the assets it related to. Using ARAM for NOLs excess deferred taxes would keep the excess deferreds in rate base longer than when the NOL deferred taxes it is related to is in rate base would not adequately estimate how the deferred taxes would have reversed if not for the federal rate change. Amortizing the NOLs over 5 years would flow-back the net protected excess deferred income taxes slower than required by the IRS's ARAM method. Therefore, it is not a violation of the IRS's normalization rules. **(Emphasis Added)**

As the Commission can see, KCP&L's recommendation to amortize the NOL DTAs over five years (instead of 29.5 years like the protected EDITs) is not a normalization violation because the IRS normalization rules only require that the *net* protected EDIT be amortized no faster than ARAM. As stated in the response to Staff Data Request No. 160 above, the *net* protected EDIT refers to the protected plant EDIT less the EDIT associated with the NOL DTA. In other words, the *net* protected EDIT cannot be used to lower the cost of service any more than would be the case if the *net* protected EDIT was amortized over the ARAM time period.

Because the amortization of the EDIT related to the NOL DTAs increases income tax expense, this offsets the revenue requirement reduction that occurs when the protected EDITs are amortized.[16] Specifically, KCP&L amortizes plant-related EDITs over 29.5

[16] Amortizing the EDIT associated with the NOL DTA results in an increase to Income Tax Expense. The reason for this is that the purpose of the NOL DTA is to offset the DTL. Because the amortization of the DTL results in a

years, which lowers the Kansas jurisdictional revenue requirement by $11.183 million.[17] Remember any amortization period that amortizes the EDIT on the NOL DTAs faster than 29.5 years will result in the *net* protected EDIT going back to customers *slower* than the IRS allows. In KCPL's Application, the amortization of EDIT associated with the NOL DTA is over five years, increasing the Kansas jurisdictional revenue requirement by $8,864,212.[18] Therefore the *net* reduction to the revenue requirement associated with net plant related EDIT amortization is only $2,319,231. This has the effect of slowing down the amortization of *net* EDIT, which the IRS allows, but this reduces how quickly ratepayers get this money back. If KCP&L were to amortize the EDIT related to the NOL DTA over 29.5 years as allowed by the IRS normalization rules, the result would be a reduction to the revenue requirement by $7.35 million[19], increasing the *net* EDIT benefit in KCP&L's cost of service to $9,678,994.[20]

Ultimately, the IRS normalization rules only prevent customers from getting excess deferred taxes back too quickly, but there's no violation if customers get back the *net* EDIT slower than they otherwise would (under ARAM). This is exactly what KCP&L proposes. While the IRS normalization rules allow KCP&L to give customers no more than $9,678,994 in EDIT per year, KCP&L proposes to give customers $2,319,231 per year.

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reduction to Income Tax Expense, if we do not recognize the offsetting amortization of the NOL DTA, Income Tax Expense in the cost of service will be too low.

[17] $17,757,290 (as filed in KCP&L's original schedules) *0.462712 (KS Jurisdictional %) / 0.7347 (Income tax Gross up Factor) equals $11,183,443.

[18]$70,373,549 / 5 years = $14,074,710 (as filed in KCP&L's original schedules) *0.462712 (KS Jurisdictional %) / .7347 Income Tax Gross up Factor equals $8,864,212.

[19] $70,373,549/ 29.5 years = $2,388,783. $2,388,783 * 0.462712 (KS Jurisdictional %) / 0.7347 Income Tax Gross up Factor = $1,504,448. $8,864,212-$1,504,448 = $7,359,764. Note that this number differs slightly from the impact of Staff's adjustment ($7.48 million), because Staff's adjustment accounts for the effects of updating these numbers to June 30, 2018, amortization amounts based on December 31, 2017, EDIT balances.

[20] $11,183,443 reduction in revenue requirement associated with amortization of plant-related deferreds less the increase in the revenue requirement of $1,504,448 associated with the amortization of NOL DTA deferreds equals $9,678,994.

The result of KCP&L's proposed amortization period for the EDIT associated with the NOL DTA dramatically reduces the benefit to customers of the amortization of the *net* protected EDIT. While this is not a violation of IRS normalization rules, it is bad ratemaking policy and should be rejected by the Commission.

Q. What is Staff's recommendation with regard to the EDIT associated with the NOL DTA?

A. Staff recommends amortizing the EDIT associated with the NOL DTA over the same time period as the EDIT associated with the protected DTL. This treatment effectively "nets" the amortization of EDIT associated with KCPL's NOL DTA with the amortization of EDIT associated with KCP&L DTL, which is the same as the IRS normalization rules treat this EDIT and is the same as KCP&L is amortizing this EDIT to its financial books during 2018.

This is reasonable because KCP&L's NOL originated for the same reason as its protected DTL; that is, the timing differences arising from the use of accelerated and bonus depreciation for tax purposes versus the use of straight line depreciation for regulatory purposes. Additionally, in KCP&L's regulatory proceedings, the NOL DTA is recognized as an increase to rate base so that it can be netted against the DTL, which is recognized as a source of cost free capital (which is a reduction to rate base). This is because the DTL does not account for the fact that some of this tax benefit has not been used due to KCP&L's previous NOLs. The real purpose of recognizing the DTA related to KCP&L's NOLs is so that the DTL amount that is recognized as cost-free capital in the revenue requirement calculation is not overstated. Given all of this, the most reasonable amortization of the

EDIT associated with the DTA would be to just net it against the amortization of EDIT associated with the DTL, just the same as the rate base treatment for these items.

As discussed above, when the IRS evaluates the amortization of EDIT that results from this rate case, it evaluates the amortization of the *net* protected EDIT, that is, the gross DTL EDIT less the NOL DTA EDIT. That is exactly what Staff is recommending. By amortizing the NOL DTA EDIT at the same rate as the protected DTL EDIT, we are essentially just amortizing the *net* protected EDIT using ARAM, just like the IRS normalization rules do when determining the maximum allowable EDIT benefit. As mentioned above, KCP&L is already amortizing the NOL DTA EDIT on its general ledger in 2018 using ARAM.[21]

Q. How do you respond to KCP&L's argument that five years most closely matches the expected life of the amortization of the NOLs?

A. The Commission should not be persuaded by KCP&L's arguments that the EDIT on the NOL DTA should match the life of the underlying NOL. It is true that the DTA associated with the NOL will amortize off as the NOL is used. That is completely separate from the EDIT associated with the NOL DTA. The EDIT associated with the NOL DTA is most closely related to the EDIT associated with KCPL's protected DTL. This is because the sole purpose of recognizing the NOL DTA in regulatory proceedings is to act as an offset to properly reflect the *net* DTL in rate base. The EDIT associated with the NOL DTA serves the same purpose, to *net* against the otherwise-too-large EDIT from KCPL's protected DTL. Staff's treatment nets the EDIT associated with the NOL DTA against the EDIT associated with the protected DTL, just like the IRS does in enforcing its

[21] See response to CURB DR No. 34 for amortization of EDIT related to NOL DTA for first six months of 2018, using ARAM.

normalization rules and just like we treat the underlying assets when calculating the *net* impact of deferred taxes on rate base.

G. Summary

Q. Please recap and summarize the previous discussion on the amortization of Excess Deferred Income Taxes related to Net Operating Loss-associated Deferred Tax Assets.

A. When the TCJA was implemented on January 1, 2018, $523.1 million of plant-related EDIT was created. This EDIT is related to KCP&L's use of accelerated and bonus depreciation on its federal tax return and straight line depreciation on its regulatory books. The "protected" portion of this EDIT is subject to IRS Tax Normalization rules and is being amortized very slowly over the course of the assets which gave rise to the timing difference, in this case, 29.5 years.[22] The amortization of this EDIT reduces the Kansas-jurisdictional cost of service by $11.18 million because the amortization of EDIT is treated as a reduction to current period income taxes, which is then grossed up for taxes before it is credited to the revenue requirement.

At the same time as $523.1 million of EDIT was created, there was $70.3 million in EDIT associated with the Net Operating Loss related Deferred Tax Asset created as well. Since the EDIT associated with NOLs is a DTA, IRS Tax Normalization rules allow it to be amortized faster than ARAM, but not slower. KCP&L's recommendation to amortize this balance over five years has the effect of increasing the revenue requirement in KCP&L's Application by $8.8 million. So, while $523 million of EDIT is being amortized to the cost

[22] While KCPL is only required to amortize the "protected" portion of this EDIT using ARAM, it has amortized all plant-related EDIT using ARAM in its Application. Staff agrees with this practice, as it is reasonable to amortize plant-related EDIT over the life of the assets that gave rise to the EDIT.

of service over 29.5 years, at a reduction to the revenue requirement of $11.18 million, KCP&L recommends amortizing $70.3 million of EDIT associated with the NOL DTA over just five years, at an increase to the revenue requirement of $8.8 million. This mismatch in amortization periods causes the amortization of an EDIT balance on the asset that is one-seventh the size of the EDIT balance on the liability, to offset 80% of the customer benefit associated with the amortization of the EDIT. Staff's recommendation synchronizes the amortization of these EDIT balances, which is allowed by IRS normalization rules and is consistent with how KCP&L is booking this amortization on its financial books during 2018. This is reasonable because the purpose of the NOL DTA is to offset the otherwise-too-large DTL associated with tax timing benefits that the company has not yet used, given the fact that it experienced an NOL on its tax return. In other words, the NOL DTA is just an offset to the DTL. The amortization of any EDIT related to both the NOL DTA and the DTL should occur over the same time period.

Q. After reflecting Staff's adjustments, what is the amount of annual EDIT amortization that is reflected in Staff's revenue requirement?

A. The table below contains Staff's recommended EDIT amortizations, as reflected in Staff's revenue requirement recommendation. Note that the amount being amortized and the ARAM amortization period are different than the table above due to Staff using updated amounts based on December 31, 2017, EDIT amounts and June 30, 2018, amortization amounts.

EDIT Amortizations in KCPL's Filed Revenue Requirement (Total Company Basis)		
EDIT Amount to Amortize	Years /Amortize	Increase (Decrease) to Tax Expense
Plant Related- $(534,617,735)	29.76	$(17,962,218)
Miscellaneous- $(3,327,570)	10	$(332,757)
NOL DTA $65,110,179	29.76	$2,187,842
		Total $(16,107,133) [23]

IV. Staff's Recommendation Not to Update Certain Expenses Outside the Test Year

A. Background/Introduction

Q. Please provide some background regarding the issue of updating costs outside of the test year in the course of a rate proceeding.

A. As the Commission is aware, it is a common Staff practice to evaluate elements of the cost of service after the test year in an effort to examine whether the expenses in the test year are still representative of a utility's ongoing, normalized operations. As part of this process,

[23] The amounts presented in this table are presented in total company amounts, that is, they have not been allocated to reflect the impact on only KCP&L's Kansas customers. Additionally, because these amounts affect income tax expense directly, they will be grossed up for income taxes in the final revenue requirement calculation. Therefore, in order to determine the impact on the Staff revenue requirement, these amounts need to be multiplied by 46.2712%, then divided by 0.7347. So, the total revenue requirement impact of Staff's recommended amortization of EDIT was approximately $(10,144,227). For the changes to EDIT amortization related to plant-related and miscellaneous EDIT, please see the Direct Testimony of Mr. William Baldry.

Exhibit 6

Copies of Responses to Informal IRs

Responses to CA-IR-19, 26, 32, 37, 43, 48, 49, 50, 65, 69, 76

INFORMAL CA-IR-19

Ref: MECO April and subsequent monthly RBA Packets, Schedule B (Correction). Beginning with April 2018, each Schedule B is noted "As Corrected In April 2018". Notes 2 and 3 provided additional information regarding the 2017 Tax Cuts & Jobs Act. Please provide the following:

a. Please further clarify the need for insertion of additional columns identified as (g) through (i) beginning in April 2018.
b. When comparing Schedule B from the March and April 2018 RBA packets, the January-March amounts in columns (j) [balance subject to interest], (k) [interest] and (l) [ending balance] were revised in April. In the absence of the underlying spreadsheet, please provide a further explanation of the calculation changes associated with these "corrections."
c. Please provide a citation to the docket, order number and exhibit associated with the Commission's authorization of these corrections and revisions to Schedule B.

Hawaiian Electric Companies Response:

a. See Attachment 1 (Letter to the PUC dated June 6, 2018, Subject: Hawaiian Electric Companies' Treatment of the Decoupling Revenue Included in the RBA Balances Impacted by 2017 Tax Cuts & Jobs Act) for clarification of columns (g) through (i) beginning in April 2018.

b. Per page 2 of Attachment 1, in April 2018, the Companies adjusted the March 31, 2018 RBA balance for the change in accounting methodology as a result of IRC §451(b) retroactive to January 2018, when the ADIT adjustment began. The RBA balance for January to March 2018 was recalculated, subject to interest and an upward adjustment to "true-up" the RBA balance was made in April 2018.

c. The Commission was notified of the revisions to Schedule B as a result of the new provisions of IRC §451 through correspondence (Attachment 1), consistent with the implementation of the deferred tax adjustment in 2014.

June 6, 2018

FILED

2018 JUN -6 P 3:51

PUBLIC UTILITIES COMMISSION

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

Dear Commissioners:

Subject: Hawaiian Electric Companies' Treatment of the Decoupling Revenue Included in the RBA Balances Impacted by 2017 Tax Cuts & Jobs Act

This letter is to inform the Commission that the Hawaiian Electric Companies'[1] Schedule B ("Summary of Accumulated Revenue Balancing Account") in its decoupling filings has been revised as a result of the 2017 Tax Cuts & Jobs Act effective for years ending after December 31, 2017. The new provisions of IRC §451(b) supersede the prior tax method of deferring revenue recognition of revenue balancing account ("RBA") revenues for which the Companies obtained approval from the Internal Revenue Service ("IRS") in April 2014. The new provisions result in the elimination of accumulated deferred income taxes ("ADIT") associated with these revenues.

2014 Interest on Net-of-Income Tax Basis

On May 6, 2014, the Companies informed the Commission that in accordance with Decision and Order No. 31908, the Hawaiian Electric Companies received approval from the IRS to change their accounting method from the book method of RBA revenue recognition to a recognition method based on when rates are adjusted for the RBA, effective January 1, 2014.

Accordingly, in May 2014, the Companies initiated downward adjustments to the RBA balance for the related ADIT and computed interest on this net-of-income tax RBA balance for the period January 1 - April 30, 2014. Starting with May 2014, the Companies updated Schedule B to calculate interest based on a net-of-income tax RBA balance.

2017 Tax Cuts & Jobs Act – Change in Treatment

On December 22, 2017, the 2017 Tax Cuts & Jobs Act was signed into law to be effective for tax years ending after December 31, 2017. In accordance with the new IRC §451(b), "...the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in... an applicable financial statement of the taxpayer..."

This change supersedes the RBA tax accounting treatment (deferred until received in rates) that the IRS approved for the Companies on April 21, 2014 and that the Commission adopted in Decision and Order No. 31908 in Docket No. 2013-0141 (Decoupling Reexamination Proceeding).

[1] The "Hawaiian Electric Companies" or "Companies" are Hawaiian Electric Company, Inc. ("Hawaiian Electric"), Hawai'i Electric Light Company, Inc. ("Hawai'i Electric Light"), and Maui Electric Company, Limited ("Maui Electric").

IRC §451(b) eliminates the book tax temporary difference for which ADIT was provided but allows a transition to the new law, by amortizing the deferred RBA income (on which the RBA ADIT balance at December 31, 2017 is based) into taxable income over the next four years. Consequently, the ADIT adjustment to the basis for calculating RBA interest will decrease over this four year period down to zero by the end of 2021. The change captures the impact on cash flow related to the RBA net of taxes and results in a higher RBA interest charge calculated on the full RBA balance.

Schedule B Changes

In April 2018, the Companies adjusted the March 31, 2018 RBA balance for the change in accounting methodology as a result of IRC §451(b) retroactive to January 2018, when the ADIT adjustment began. They recalculated the January to March 2018 RBA balance, subject to interest, and made an upward adjustment to "true-up" the RBA balance in April 2018.[2]

Starting with April 2018, Schedule B was updated to calculate interest based on the full RBA balance net of the RBA ADIT balance per the provisions of IRC §451(b). See Attachments 1 – 3 to this letter.

- Column g – RBA Balance Before ADIT – represents the beginning RBA balance (column b) plus the Variance to RBA (column e) plus the Adjustment for prior year RBA accrual (column f).
- Column h – ADIT Related to RBA Revenues – reflects the declining balance of the RBA ADIT balance as of December 31, 2017. The RBA ADIT balance will be amortized over the next 4 years on a monthly straight-line basis with the effect of reducing the tax adjustment balance down to zero by the end of 2021.
- Column i – Net Ending Balance – represents the RBA Balance Net of ADIT (column g + column h).
- Column j – Average Balance Subject to Interest – the balance subject to interest is based on the average of the prior month Net Ending Balance (including Interest) plus current month Net Ending Balance.
- Column l - The calculation of the Ending RBA balance excludes the declining RBA ADIT balance (column h). The declining RBA ADIT balance is only used to calculate interest under the provisions of IRC §451(b).

Very truly yours,

Dean K. Matsuura
Manager, Regulatory Rate Proceedings

Enclosures

[2] As shown in Attachments 1-3 (Note 3), the RBA Balance was trued-up in April 2018 by $4,510 for Hawaiian Electric, $562 for Maui Electric, and $1,394 for Hawai'i Electric Light.

ATTACHMENT 1
SCHEDULE B
PAGE 1 OF 1

AS CORRECTED IN APRIL 2018

HAWAIIAN ELECTRIC COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
SUMMARY OF ACCUMULATED REVENUE BALANCING ACCOUNT

Line No.		Month	Beginning Balance	Target Revenues	Recorded Adjusted Revenue	Variance to RBA	Adjustment for prior year RBA accrual	RBA Balance Before ADIT	ADIT Related to RBA Revenues	Net Ending Balance	Average Balance Subject to Interest	Interest at 1.75%/year	Ending Balance
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	Monthly RBA Balance and Activity (Monthly PUC Rpt., Pg. 9A)												
			$ 18,013,624										
1	2017	December	$ 46,306,327	$ 49,915,326	$ 43,730,598	$ 6,184,728	$ (3,302,057)				29,169,047	$ 42,538	$ 49,231,536
2		December - Revised - Note (2)						$ 49,231,536	(12,678,046)	$ 36,553,490			
3													
4	2018	January	$ 49,231,536	$ 48,948,443	$ 43,871,232	$ 5,077,211	$ (3,369,650)	$ 50,939,097	$ (12,413,920)	$ 38,525,177	$ 37,539,333	$ 54,745	$ 50,993,842
5		February	$ 50,993,842	$ 45,953,154	$ 40,430,219	$ 5,522,935	$ (4,185,853)	$ 52,330,924	$ (12,149,794)	$ 40,181,130	$ 39,380,526	$ 57,430	$ 52,388,354
6		March	$ 52,388,354	$ 51,603,222	$ 46,365,780	$ 5,237,442	$ (3,345,112)	$ 54,280,684	$ (11,885,668)	$ 42,395,016	$ 41,316,788	$ 60,254	$ 54,340,938
7		April	$ 54,340,938	$ 49,061,587	$ 45,638,864	$ 3,422,723	$ (3,430,466)	$ 54,333,195	$ (11,621,542)	$ 42,711,653	$ 42,583,461	$ 62,101	$ 54,395,296
8		May	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
9		June	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10		July	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
11		August	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
12		September	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
13		October	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
14		November	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
15		December	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
16				$ 195,566,406	$ 176,306,095	$ 19,260,311	$ (14,331,081)					$ 234,530	
17													
18													
19													
20	2019	January	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
21		February	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
22		March	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
23		April	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
24		May	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
25		June	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
26		July	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
27		August	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
28		September	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
29		October	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
30		November	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
31		December	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Sources of Data:			Sch. B1	Sch B2	Cols (c)-(d)	Note (1)	Cols (b)+(e)+(f)	Note (2)	Note (2) & (3) Cols (g)+(h)	Curr Col (i)+ Prior Col (i)+(k) /2		Cols (g)+(k)

Note (1):
Amounts represent recovery of prior years' RBA balance through the RBA rate adjustment effective June 1, 2017 for the period June 2017 through May 2018 and June 1, 2018 for the period June 2018 through May 2019.

Note (2):
On December 22, 2017, the 2017 Tax Cuts & Jobs Act was signed into law to be effective for tax years ending after December 31, 2017. In accordance with IRC §451(b), "...the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in... an applicable financial statement of the taxpayer...". This change would supersede the RBA tax accounting treatment (deferred until received in rates) the IRS approved for the Companies on April 21, 2014 and adopted in Decision & Order No. 31908 on Schedule A of the Decoupling Investigation, issued in Docket No. 2013-0141 on February 7, 2014.

IRC §451(b) would eliminate the book tax temporary difference for which ADIT was provided and accordingly, would reduce to zero the tax adjustment to the basis for calculating RBA interest. This change imposed by IRC §451(b) should allow for the deferred RBA income (on which the RBA ADIT balance at December 31, 2017 is based) to be amortized into taxable income over the next 4 years (straight-line basis) with the effect of reducing the tax adjustment balance down to zero by the end of 2021.

RBA Regulatory Asset Balance at 12/31/2017	49,231,536
Composite Federal & State Income Tax Rate	25.75%
RBA ADIT Balance at 12/31/2017	12,678,046
Years	4
Annual amortization for years 2018 through 2021	3,169,511
Monthly ADIT amortization	264,126

Note (3):
In April 2018, the Companies adjusted the March 31, 2018 RBA balance for the change in accounting methodology identified in Note (2). The January to March 2018 RBA balance subject to interest was recalculated and the RBA Balance was trued-up in April 2018 for $4,510.

ATTACHMENT 2
SCHEDULE B
PAGE 1 OF 1

Hawaii Electric Light Company, Inc.
DECOUPLING CALCULATION WORKBOOK
SUMMARY OF ACCUMULATED REVENUE BALANCING ACCOUNT

AS CORRECTED IN APRIL 2018

Line No.		Month	Beginning Balance	Target Revenues	Recorded Adjusted Revenue	Variance to RBA	Adjustment for prior year RBA accrual	RBA Balance Before ADIT	ADIT Related to RBA Revenues	Net Ending Balance	Average Balance Subject to Interest	Interest at 3.25%/year	Ending Balance
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	Monthly RBA Balance and Activity (Monthly PUC Rpt., Pg. 9A)												
1	2017	December	$ 3,128,648	$ 13,230,418	$ 12,492,192	$ 738,226	$ (253,086)				$ 2,059,477	$ 5,578	$ 3,619,366
2		December - Revised - Note (2)						$ 3,619,366	(932,055)	$ 2,687,311			
3													
4	2018	January	$ 3,619,366	$ 13,301,362	$ 12,835,840	$ 465,522	$ (258,886)	$ 3,826,002	$ (912,637)	$ 2,913,365	$ 2,800,338	$ 7,584	$ 3,833,586
5		February	$ 3,833,586	$ 12,451,601	$ 11,560,335	$ 891,266	$ (235,377)	$ 4,489,475	$ (893,219)	$ 3,596,256	$ 3,258,603	$ 8,825	$ 4,498,300
6		March	$ 4,498,300	$ 13,258,795	$ 12,733,942	$ 524,853	$ (257,906)	$ 4,765,247	$ (873,801)	3,891,446	$ 3,748,264	$ 10,152	$ 4,775,399
7		April	$ 4,775,399	$ 12,725,921	$ 12,731,188	$ (5,267)	$ (258,997)	$ 4,511,135	$ (854,383)	$ 3,656,752	$ 3,779,175	$ 10,235	$ 4,521,370
8		May	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
9		June	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10		July	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
11		August	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
12		September	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
13		October	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
14		November	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
15		December	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
16		Total		$ 51,737,679	$ 49,861,305	$ 1,876,374	$ (1,011,166)					$ 36,796	
17													
18													
19	2019	January	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
20		February	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
21		March	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
22		April	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
23		May	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
24		June	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
25		July	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
26		August	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
27		September	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
28		October	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
29		November	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
30		December	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Sources of Data:			Sch. B1	Sch. B2	Col (c) - (d)	Note (1)	Cols (b)+(e)+(f)	Note (2)	Note (2) & (3) Cols (g)+(h)	Curr Col (i)+ Prior Col (i)+(k) /2		Cols (g)+(k)

Note (1)
Amounts represent recovery of prior years' RBA balance through the RBA rate adjustment effective June 1, 2017 for the period June 2017 through May 2018 and June 1, 2018 for the period June 2018 through May 2019.

Note (2):
On December 22, 2017, the 2017 Tax Cuts & Jobs Act was signed into law to be effective for tax years ending after December 31, 2017. In accordance with IRC §451(b), "...the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in... an applicable financial statement of the taxpayer...". This change would supersede the RBA tax accounting treatment (deferred until received in rates) the IRS approved for the Companies on April 21, 2014 and adopted in Decision & Order No. 31908 on Schedule A of the Decoupling Investigation, issued in Docket No. 2013-0141 on February 7, 2014.

IRC §451(b) would eliminate the book tax temporary difference for which ADIT was provided and accordingly, would reduce to zero the tax adjustment to the basis for calculating RBA interest. This change imposed by IRC §451(b) should allow for the deferred RBA income (on which the RBA ADIT balance at December 31, 2017 is based) to be amortized into taxable income over the next 4 years (straight-line basis) with the effect of reducing the tax adjustment balance down to zero by the end of 2021.

RBA Regulatory Asset Balance at 12/31/2017	3,619,366
Composite Federal & State Income Tax Rate	25.75%
RBA ADIT Balance at 12/31/2017	932,055
Years	4
Annual amortization for years 2018 through 2021	233,014
Monthly ADIT amortization	19,418

Note (3):
In April 2018, the Companies adjusted the March 31, 2018 RBA balance for the change in accounting methodology identified in Note (2). The January to March 2018 RBA balance subject to interest was recalculated and the RBA Balance was trued-up in April 2018 for $1,394.

ATTACHMENT 3
SCHEDULE B
PAGE 1 OF 1

AS CORRECTED IN APRIL 2018

MAUI ELECTRIC COMPANY, LIMITED
DECOUPLING CALCULATION WORKBOOK
SUMMARY OF ACCUMULATED REVENUE BALANCING ACCOUNT

Line No.	Month	Beginning Balance	Target Revenues	Recorded Adjusted Revenue	Variance to RBA	Adjustment for prior year RBA recovery	RBA Balance Before ADIT	ADIT Related to RBA Revenues	Net Ending Balance	Average Balance Subject to Interest	Interest at 1.25%/year	Ending Balance
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
	Monthly RBA Balance and Activity (Monthly PUC Rpt., Pg. 9A)											
1	2017 December	$ 4,861,114	$ 10,989,854	$ 10,098,926	$ 890,928	$ (211,037)				$ 3,177,327	$ 3,310	$ 5,544,314
2	December - Revised - Note (2)						$ 5,544,314	(1,427,765)	$ 4,116,549			
3												
4												
5	2018 January	$ 5,544,314	$ 11,206,137	$ 10,623,809	$ 582,328	$ (220,318)	$ 5,906,325	$ (1,398,020)	$ 4,508,304	$ 4,312,427	$ 4,492	$ 5,910,817
6	February	$ 5,910,817	$ 9,935,477	$ 9,491,075	$ 444,402	$ (196,271)	$ 6,158,948	$ (1,368,275)	$ 4,790,673	$ 4,651,735	$ 4,846	$ 6,163,794
7	March	$ 6,163,794	$ 11,192,619	$ 10,411,284	$ 781,335	$ (212,026)	$ 6,733,103	$ (1,338,530)	$ 5,394,573	$ 5,095,046	$ 5,307	$ 6,738,410
8	April	$ 6,738,410	$ 10,651,913	$ 10,646,857	$ 5,056	$ (220,634)	$ 6,522,832	$ (1,308,785)	$ 5,214,047	$ 5,306,964	$ 5,528	$ 6,528,360
9	May				$ -		$ -	$ -	$ -	$ -	$ -	$ -
10	June				$ -		$ -	$ -	$ -	$ -	$ -	$ -
11	July				$ -		$ -	$ -	$ -	$ -	$ -	$ -
12	August				$ -		$ -	$ -	$ -	$ -	$ -	$ -
13	September				$ -		$ -	$ -	$ -	$ -	$ -	$ -
14	October				$ -		$ -	$ -	$ -	$ -	$ -	$ -
15	November				$ -		$ -	$ -	$ -	$ -	$ -	$ -
16	December				$ -		$ -	$ -	$ -	$ -	$ -	$ -
17			$ 42,986,146	$ 41,173,024	$ 1,813,122	$ (849,249)				$ 19,366,171	$ 20,173	
18												
19	2019 January	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
20	February	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
21	March	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
22	April	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
23	May	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
24	June	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
25	July	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
26	August	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
27	September	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
28	October	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
29	November	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
30	December	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Sources of Data:		Sch. B1	Sch. B2	Col (c) - (d)	Note (1)	Cols (b)+(e)+(f)	Note (2)	Note (2) & (3) Cols (g)+(h)	Curr Col (i)+ Prior Col (i)+(k)/2		Cols (g)+(k)

Note (1):
Amounts represent recovery of prior years' RBA balance through the RBA rate adjustment effective June 1, 2017 for the period June 2017 through May 2018 and June 1, 2018 for the period June 2018 through May 2019.

Note (2):
On December 22, 2017, the 2017 Tax Cuts & Jobs Act was signed into law to be effective for tax years ending after December 31, 2017. In accordance with IRC §451(b), "...the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in... an applicable financial statement of the taxpayer..." This change would supersede the RBA tax accounting treatment (deferred until received in rates) the IRS approved for the Companies on April 21, 2014 and adopted in Decision & Order No. 31908 on Schedule A of the Decoupling Investigation, issued in Docket No. 2013-0141 on February 7, 2014.

IRC §451(b) would eliminate the book tax temporary difference for which ADIT was provided andaccordingly, would reduce to zero the tax adjustment to the basis for calculating RBA interest. This change imposed by IRC §451(b) should allow for the deferred RBA income (on which the RBA ADIT balance at December 31, 2017 is based) to be amortized into taxable income over the next 4 years (straight-line basis) with the effect of reducing the tax adjustment balance down to zero by the end of 2021.

RBA Regulatory Asset Balance at 12/31/2017	5,544,314
Composite Federal & State Income Tax Rate	25.75%
RBA ADIT Balance at 12/31/2017	1,427,765
Years	4
Annual amortization for years 2018 through 202	356,941
Monthly ADIT amortization	29,745

Note (3):
In April 2018, the Companies adjusted the March 31, 2018 RBA balance for the change in accounting methodology identified in Note (2). The January to March 2018 RBA balance subject to interest was recalculated and the RBA Balance was trued-up in April 2018 for $562.

INFORMAL CA-IR-26

Ref: Response to Informal CA-IR-19, Attachment 1 Schedules B (TCJA Deferred Tax Adjustment / Interest Rates).

In this response, the Companies explain revisions to Schedule B to gradually remove the ADIT reduction to the RBA balance earning interest. Please provide the following additional information:

a. Copies of reports, analyses, correspondence and other documents relied upon by the Companies for the interpretation of IRC Section 451(b) and the proposed 4-year amortization of recorded ADIT credit balances.
b. Identify the sources for the interest rate applied to net of ADIT RBA balances, indicating the effective dates of rate orders that impacted such rates.

<u>Hawaiian Electric Companies Response:</u>

a. The Company relies on the statutory language of IRC §451(b) which states in part, "In the case of a taxpayer the taxable income of which is computed under an accrual method of accounting, the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in…an applicable financial statement of the taxpayer…."

With respect to the four year spread of the recorded ADIT balances related to the RBA revenues, Revenue Procedure 2018-60 includes the accounting method change as a result of the new IRC §451(b) rule as one qualifying as an automatic change, which is afforded the four year spread of the positive adjustment to taxable income. With respect to the four year amortization period, see Revenue Procedure 2015-13, Paragraph 7.03 for the general rule related to positive §481(a) adjustments. See Attachments 1-3 of this response for copies of the IRC §451(b) (Attachment 1) and Revenue Procedures 2015-13 (Attachment 2) and 2018-60 (Attachment 3).

It should be noted that it has recently come to our attention that there may be a possibility that the method of accounting provided in IRC §451(b) may not apply to utility services income. Congressional guidance (generally referred to as the "Bluebook") from the Joint Committee on Taxation was recently published in December 2018. Subpart B, Paragraph A of the Bluebook, starting on page 164, states, "the provision does not apply to items of gross income the timing of which is determined under a special method of accounting provided elsewhere in the Code…." Although the implication is that IRC §451(h), special rule for utilities, may be excluded from the new rule under §451(b), it is still not clear whether the applicable income under §451(h) includes RBA income and to what extent the two provisions may overlap. We are awaiting further clarification from the government authorities before any changes are made to our estimated taxes paid and deferred income taxes recorded.

See Attachment4 of this response for a copy of the Bluebook, specifically pages 148-166 of Subpart B, paragraph A of the Bluebook.

b. The interest rate applied to net of ADIT RBA balances is the approved short term interest rate per each respective Company's final rate orders. The effective date of rate orders are as follows:

	Effective Date	Short Term Rate	Source
HECO	1/1/18 - 6/22/18	1.75%	Docket No. 2010-0080 – Hawaiian Electric 2011 Test Year Rate Case, Decision and Order No. 30505, filed June 29, 2012 (which approved short-term rate from Hawaiian Electric's Statement of Probable Entitlement, filed July 5, 2011, Attachment 1, page 2 of 13)
	6/23/18 - 12/31/18	1.75%	Docket No. 2016-0328 – Hawaiian Electric 2017 Test Year Rate Case, Decision and Order No. 35545 filed June 22, 2018 (which approved short-term rate from Hawaiian Electric's Statement of Probable Entitlement, filed November 17, 2017, Attachment 1, page 2 of 13)
HELCO	1/1/2018 - 6/30/2018	3.25%	Docket No. 2009-0164 - Hawai'i Electric Light 2010 Test Year Rate Case, Decision and Order No. 30168 (which approved short-term rate from Stipulated Settlement Letter, filed September 16, 2010, Attachment 1, page 2 of 13)
	7/1/2018 - 12/31/18	1.50%	Docket No. 2015-0170 – Hawai'i Electric Light 2016 Test Year Rate Case, Final Decision and Order No. 35559, filed June 29, 2018 (which approved short-term rate from Parties' Stipulated Settlement Letter, filed July 11, 2017, Exhibit 1, page 84 of 95)
MECO	1/1/18 - 12/31/18	1.25%	Docket No. 2011-0092 – Maui Electric 2012 Test Year Rate Case, Decision and Order No. 31288, issued May 31, 2013, page 113 of 141.

HAWAIIAN ELECTRIC (1/1/2018 – 6/22/2018)
Source: Docket No. 2010-0080 – Hawaiian Electric 2011 Test Year Rate Case, Hawaiian Electric's Statement of Probable Entitlement, filed July 5, 2011, Attachment 1, page 2 of 13:

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Hawaiian Electric Company, Inc.

Settlement(w/ Approved Depr Rates in Docket No. 2010-0053)
COMPOSITE EMBEDDED COST OF CAPITAL
Estimated 2011 Average

	A	B	C	D
	Capitalization			
	Amount in Thousands	Percent of Total	Earnings Reqmts	Weighted Earnings Reqmts (B) x (C)
Short-Term Debt	38,210	2.35	1.75%	0.041%
Long-Term Debt	624,620	38.36	5.86%	2.248%
Hybrid Securities	27,994	1.72	7.36%	0.126%
Preferred Stock	20,806	1.28	5.46%	0.070%
Common Equity	916,533	56.29	10.00%	5.629%
Total	1,628,163	100.00		
Estimated Composite Cost of Capital				8.114%
			or	8.11%

HAWAIIAN ELECTRIC (6/23/2018 – 12/31/2018)

Source: Docket No. 2016-0328 – Hawaiian Electric 2017 Test Year Rate Case, Hawaiian Electric's Statement of Probable Entitlement, filed November 17, 2017, Attachment 1, page 2 of 13:

ATTACHMENT 1
PAGE 2 OF 13

Hawaiian Electric Company, Inc.

Stipulated Settlement with Revenues at Current Effective Rates
COMPOSITE EMBEDDED COST OF CAPITAL
Estimated 2017 Average

	A	B	C	D
	Capitalization			
	Amount in Thousands	Percent of Total	Earnings Reqmts	Weighted Earnings Reqmts (B) x (C)
Short-Term Debt	27,770	1.18	1.75%	0.02%
Long-Term Debt	928,748	39.59	5.03%	1.99%
Hybrid Securities	28,651	1.22	7.19%	0.09%
Preferred Stock	21,137	0.90	5.37%	0.05%
Common Equity	1,339,335	57.10	9.50%	5.42%
Total	2,345,641	100.00		
Estimated Composite Cost of Capital				7.57%

HAWAI'I ELECTRIC LIGHT (1/1/2018 – 6/30/2018)
Source: Docket No. 2009-0164 – Hawai'i Electric Light 2010 Test Year, Stipulated Settlement Letter, filed September 16, 2010, HELCO T-20, Attachment 1, page 2 of 13:

HELCO T-20
ATTACHMENT 1
PAGE 2 OF 13
FINAL SETTLEMENT

Hawaii Electric Light Company, Inc.

Dkt. No. 2009-0321 Depreciation Rates at Curr Eff Rates
COMPOSITE EMBEDDED COST OF CAPITAL
Estimated 2010 Average

	A	B	C	D
	Capitalization			
	Amount in Thousands	Percent of Total	Earnings Reqmts	Weighted Earnings Reqmts (B) x (C)
Short-Term Debt	7,040	1.41	3.25%	0.046%
Long-Term Debt	196,838	39.48	6.15%	2.428%
Hybrid Securities	9,297	1.86	7.38%	0.138%
Preferred Stock	6,623	1.33	8.29%	0.110%
Common Equity	278,722	55.91	10.125%	5.661%
Total	498,520	100.00		
Estimated Composite Cost of Capital				8.383%
			or	8.38%

HAWAI'I ELECTRIC LIGHT (7/1/2018 – 12/31/2018)
Source: Docket No. 2015-0170 – Hawai'i Electric Light 2016 Test Year Rate Case, Parties' Stipulated Settlement Letter, filed July 11, 2017, Exhibit 1, page 84 of 95:

EXHIBIT 1
PAGE 84 OF 95

Cost of Capital Component	Weight	Cost	Weighted Cost
Short-Term Debt	0.00%	1.50%	0.00%
Long-Term Debt	39.69%	5.40%	2.14%
Hybrid Securities	1.87%	7.21%	0.13%
Preferred Stock	1.32%	8.18%	0.11%
Common Equity	57.12%	10.60%	6.06%
Hawai'i Electric Light's Rate of Return on Rate Base			**8.44%**

MAUI ELECTRIC (1/1/2018 – 12/31/2018)
Source: Docket No. 2011-0092 – Maui Electric 2012 Test Year Rate Case, Decision and Order No. 31288, issued May 31, 2013, page 113 of 141:

	(A) Amount (000's)	(B) Percentage of Total	(C) Earnings Requirements	(D) Weighted Earnings Requirements (B) x (C)
Short-term Debt	$ 5,003	1.23%	1.25%	0.015%
Long-term Debt	$156,370	38.44%	5.06%	1.943%
Hybrid Securities	$ 9,373	2.30%	7.32%	0.169%
Preferred Stock	$ 4,744	1.17%	8.25%	0.096%
Common Equity	$231,310	56.86%	9.00%	5.117%
Total	$406,894	100%		7.34%

INFORMAL CA-IR-32

Ref: Hawaiian Electric Response to Informal IR-26, Attachment 4; Schedule B, Note 2 (Taxable Income Recognition). The Companies' response states, "It should be noted that it has recently come to our attention that there may be a possibility that the method of accounting provided in IRC § 451(b) may not apply to utility services income" and references and copies of congressional guidance documentation (the "Bluebook") is provided for this consideration. Please respond to the following:

a. Explain whether the statement, "We are awaiting further clarification from the government authorities before any changes are made to our estimated taxes paid and deferred taxes recorded" means that the adjustment described in Schedule B, Note 2 has, or has not, actually been recorded as a reduction to ADIT related to RBA Revenues on the Companies' books.
b. Provide copies of correspondence and other documents associated with the Companies' efforts to receive guidance on this topic.
c. Describe how the Companies intend to address this issue within RBA tariff filings and the Schedule B template in a few weeks given the uncertainty associated with this issue.

Hawaiian Electric Companies Response:

a. The Companies have recorded the reduction to ADIT (debit) related to RBA revenues on the Companies' books as described in its response to Informal IR-19, Attachment 1, Schedule B, Note 2.

b. The Companies are keeping abreast of further guidance on IRC §451(b) through informal discussions with its tax advisors and Edison Electric Institute and review of online research services. The only documentation that addressed this issue was in the recently published "Bluebook" issued by the Joint Committee on Taxation in December 2018, previously referred to in the response to Informal IR-26.

c. The Companies will continue to record the reduction to ADIT related to RBA revenues on that basis until further guidance is received.

INFORMAL CA-IR-37

Ref: Att 2 HECO/HELCO/MECO 2019 Template.xls, D5 Excess ADIT (Amortization of EDIT).

The Companies' calculations of recorded Excess ADIT Regulatory Liability amounts and related Amortization Amounts include a series of hard inputs and reflect to amortization of "Plant 282-protected" Excess ADIT balances. Please respond to the following:

a. Explain and provide supporting calculations for the "Adjustments" amounts in unlabeled Excel column I for HECO and column (d) for HELCO and MECO.
b. Explain and provide supporting calculations for the 2018 "Amortization" amounts in column(d) for HECO and column e) for HELCO and MECO, with information required to reconcile such amounts to excess ADIT amortization amounts actually credited to ratepayers through approved rate changes.
c. Explain each reason why no ratemaking amortization for the "Plant 282 – protected" is proposed for purposes of traditional RAM determination and describe the Companies' plans and timing for commencing such amortization for each utility.
d. Provide reference to any authority relied upon in support of the Companies' stated plans in response to part (c).
e. Provide each utility's best estimate of the calendar 2018 ARAM amortization of Plant 282-protected excess ADIT for each utility, indicating when such amounts are expected to be recorded by each utility.
f. Provide each utility's best estimate of the calendar 2019 ARAM amortization of Plant 282-protected excess ADIT for each utility, indicating when such amounts are expected to be recorded by each utility.
g. Explain how your responses to parts (e) and (f) would be affected if the Commission adopts Staff's PBR recommendations in Docket No. 2018-0088 and adopts currently effective rates and target revenue at the inception of a new Multi-year rate plan effective in 2019.

Hawaiian Electric Companies Response:

a. The "Adjustments" presented in the referenced columns represent adjustments to the regulatory liability relating to protected plant excess deferred taxes (account 282 federal). The Companies adjusted this regulatory liability primarily for the bonus depreciation taken on 2017 fourth quarter plant additions in the 2017 federal tax return. At year end, the new law was not clear on the transition rules to be applied to the post-September 27, 2017 plant additions. Consequently, the Companies assumed that fourth quarter plant additions would not qualify for the 50% bonus depreciation under the pre-2018 rules. However, in the interim between year end and the October 15, 2018 tax return filing date, regulations were issued by the Internal Revenue Service supporting the qualification of fourth quarter plant additions for bonus depreciation. The "adjustments" represent the regulatory liability associated with the true-up of federal and state tax depreciation from 2018 year end amounts to the amounts filed in the 2018 federal and Hawaii consolidated income tax returns. Please refer to Attachment 1.

b. Please refer to the information below detailing where the excess deferred tax amortization calculation was previously presented for each Company and subsequently approved:

Hawaiian Electric: Docket 2016-0328, Hawaiian Electric's 2017 Test Year Rate Case *Revised Attachment to the Parties' Stipulated Settlement on Remaining Issues*, Attachment 2A, supplement filed on March 8, 2018.

Hawaii Electric Light: Docket 2015-0170 Hawai'i Electric Light *Motion to Adjust Interim Increased*, filed March 27, 2018, Exhibit 9.

Maui Electric: Transmittal No. 18-03 (Decoupling) *For Approval to Modify the RBA Rate Adjustment in its Revenue Balance Account Provision Tariff*, filed March 29, 2018, Schedule D5.

c. The protected portion of excess ADIT is subject to the restrictions imposed by the Internal Revenue Code ("IRC") §§167 and 168 tax normalization rules. This excess is attributable to the ADIT provided on the temporary differences between accelerated tax depreciation and book depreciation on tax bases. In other words, it only relates to method and life differences captured in utility account 282. The normalization requirements allow a regulated utility to claim accelerated depreciation for federal income tax purposes only if the utility conforms to specific requirements set forth in the IRC and the related regulations. Under the tax normalization rules, this protected excess ADIT is passed back using the average rate assumption method ("ARAM"). This ARAM impact is particularly difficult to calculate because it requires the reversal of the excess to be computed for each asset account on a vintage by vintage basis and the amortization affecting rates begins only when a vintage's book depreciation exceeds tax depreciation. This computation must be done by vintage for each book depreciation account since each account has a different book depreciation life, on which the ARAM amortization is based. The Company is in the process of completing this computation and will incorporate the adjustments discussed in (a) above in its ARAM calculation. Please also see response to (e) below.

d. See response to (c) above.

e. The ARAM calculation and supporting documentation are not available at this time, due to certain errors identified in the PowerTax transfer and allocation of data in the ERP implementation process related to contributions in aid of construction ("CIAC") book tax differences. This fix requires assistance from the consultants at PowerTax. The Company has contacted the PowerTax representative and is currently discussing the fix needed and the time and expense required to remedy the situation. In addition, PowerTax has developed enhanced reports that should support the mechanics of the ARAM calculation in support of the ARAM amount. The Companies have downloaded the updates to enable the production of the enhanced reports, which will assist in the understanding and support of the ARAM computation. At this time, there is no timeline for all this work to be done, but it is the Company's expectation that the ARAM computation and supporting schedules will be completed within two to three months.

f. See e) above.

g. As explained in the response to part e., above, estimates of the ARAM calculations are not yet available. In addition, the Companies would need to know the specifics of the multi-year rate plan to assess how such a plan might affect the ARAM estimates, even if such estimates were known. As a result, at this time, the Company is unable to determine the impact on such estimates if the Commission adopts currently effective rates and target revenue at the inception of a new Multi-year rate plan effective in 2019 approved in Docket No. 2018-0088.

INFORMAL CA-IR-37
2019 RBA RATE FILING
ATTACHMENT 1
PAGE 1 OF 1

HAWAIIAN ELECTRIC COMPANY, INC. AND SUBSIDIARIES
PROTECTED (282) REGULATORY LIABILITY ADJUSTMENT

Line No.	Description	Federal Return To Provision Adjustments		State Return To Provision Adjustments	EXP (BEN) 35% FED DEF	EXP (BEN) 6.015% STATE DEF	EXP (BEN) 21% FED DEF	DEFICIT (EXCESS) EXCESS DEF ADJUSTMENT
		(a)		(b)	(c)=-[(a)+(d)]*35%	(d)=-(b)*6.015%	(e)=-[(a)+(d)]*21%	(f)=(e)-(c)
	Hawaiian Electric Co., Inc.							
1	Tax Depreciation	(41,440,235)		(937,040)	14,484,355	56,363	8,690,613	(5,793,742)
	Calculation of Regulatory Liability Adjustment							
2	Excess Deferred Tax Adjustment	(5,793,742)						
	Gross Up Factor Based on Effective Rate of							
3	25.7518797%	1.3468354						
4	Regulatory Liability with Gross Up	(7,803,217)	**Sch D5 (HECO)**					
	Hawaii Electric Light Company, Inc.							
5	Tax Depreciation	(9,076,513)		226,803	3,181,554	(13,642)	1,908,933	(1,272,622)
	Calculation of Regulatory Liability Adjustment							
6	Excess Deferred Tax Adjustment	(1,272,622)						
	Gross Up Factor Based on Effective Rate of							
7	25.7518797%	1.3468354						
8	Regulatory Liability with Gross Up	(1,714,012)	**Sch D5 (HELCO)**					
	Maui Electric Company, Ltd.							
8	Tax Depreciation	(9,417,319)		(519,872)	3,285,117	31,270	1,971,070	(1,314,047)
	Calculation of Regulatory Liability Adjustment							
10	Excess Deferred Tax Adjustment	(1,314,047)						
	Gross Up Factor Based on Effective Rate of							
11	25.7518797%	1.3468354						
12	Regulatory Liability with Gross Up	(1,769,805)	**Sch D5 (MECO)**					

INFORMAL CA-IR-43

Ref: HECO/HELCO/MECO Schedule B, Note 2; Responses to Informal CA-IR-14, 19, 26, 32 (RBA Taxable Income Recognition).

The referenced responses indicate the Companies' recorded reductions to ADIT associated with accrued RBA revenues, increasing the interest charges added to RBA balances since January of 2018 even though the Companies are "awaiting further clarification from the government authorities before any changes are made to our estimated taxes paid and deferred income taxes recorded" (IR-26) and "are keeping abreast of further guidance" (IR-32). Please explain why an unfavorable outcome has been assumed on this matter within the Companies' accounting for RBA interest on Schedule B, given the uncertainties involved, and describe the Companies' proposed corrective actions in the pending or future decoupling filings if and when a favorable determination is confirmed.

Hawaiian Electric Companies Response:

The Companies relied on the statutory language of the general rule provided in Internal Revenue Code ("IRC") §451(b) to record the reduction to ADIT related to RBA revenues until further guidance is received. This was deemed to be reasonable in light of the uncertainty of the law and the potential penalties for underpayment if the Companies continued to defer this income and were proven wrong on audit.

Although the Joint Committee on Taxation ("JCT") published Congressional guidance (generally referred to as the "Bluebook") about the potential inapplicability of IRC §451(b) to utilities, the JCT's interpretation in the Bluebook does not override the statutory law. The duties of the JCT are:

- To investigate the operation and effects of internal revenue taxes and the administration of such taxes;
- To investigate measures and methods for the simplification of such taxes;

- To make reports to the House Committee on Ways and Means and the Senate Committee on Finance (or to the House and the Senate) on the results of such investigations and studies and to make recommendations; and
- To review any proposed refund or credit of income or estate and gift taxes or certain other taxes set forth in Code section 6405 in excess of $2,000,000.

Under IRC §8021, the JCT is empowered to:

- Obtain and inspect tax returns and return information;
- Hold hearings, require attendance of witnesses and production of books, administer oaths, and take testimony;
- Procure printing and binding;
- Make necessary expenditures.

The JCT is not tasked with the interpretation of the law. The Treasury Department, including the Internal Revenue Service, is the governmental agency assigned the task of interpretation and enforcement of the tax law.

If clarification is issued in the Companies' favor, the RBA mechanism would be the appropriate vehicle for adjusting revenues to reflect the impact of the continued deferral of RBA revenues.

INFORMAL CA-IR-48

Ref. HEI 2018 Earnings Release (Joint Pole Agreement).

In discussing Hawaiian Electric's full year financial results, the HEI 2018 earnings announcement (i.e., News Release, dated February 15, 2019, at 3) identifies one of the primary drivers contributing to the $23.7 million increase in reported net income over the prior year, as follows:
$5 million in net income from the previously announced pole ownership agreement with Hawaiian Telcom, which resulted in attachment fees and a one-time impact from the release of reserves due to the settlement of receivables from Hawaiian Telcom; the arrangement will reduce the cost of this critical infrastructure to our customers by bringing in third party revenues.
Please provide the following:

a. Please disaggregate the $5 million in net income impact between HECO, HELCO and MECO, specifically showing the components and tax effects underlying such amounts.
b. Please explain the reference to "release of reserves" as used in this context and clarify whether this reserve release resulted in a one-time benefit to the HECO Companies.
c. Please explain how and whether the net income impact, change in joint pole ownership and "release of reserves" has been reflected in the HECO Companies 2019 RBA/RAM filings, which incorporates the 2018 joint pole transfer in rate base, expenses and earnings sharing calculations.
d. Please explain the referenced "third party revenues", indicating the amounts included in the HECO Companies upcoming RBA/RAM filings. If none, please explain.

<u>Hawaiian Electric Companies Response:</u>

a. The 2018 net income impact from the pole ownership agreement with Hawaiian Telcom is presented below, disaggregated by company:

Amount ($ in millions)	HE	HL	ME	Consolidated
Pole Attachment fees	$ 2.4	$ 1.4	$ 0.7	$ 4.4
Double pole remediation fees	0.3	0.2	0.1	0.7
Total Annual attachment fees	2.7	1.6	0.8	5.1
Settlement of outstanding receivables	0.7	0.7	0.2	1.6
Subtotal	3.4	2.3	0.9	6.6
Less: Tax effect (multiplied by 0.67653)	(1.1)	(0.7)	(0.3)	(2.1)
	$ 2.3	$ 1.6	$ 0.6	$ 4.5

b. The term "release of reserves" relates to the settlement with Hawaiian Telcom of the outstanding accounts receivable balances owed to the Companies as reimbursement for Hawaiian Telcom's share of the costs to maintain, replace and install the jointly-owned poles. It represents the difference between the outstanding receivable balances (net of the related receivable allowance reserves) and the settlement amount.

The release of reserves due to the settlement of the outstanding accounts receivables resulted in a total of $1.6 million in interest income in 2018 to the Companies as listed in the table in part a. above. (Refer to "Settlement of outstanding receivables" line.) However, since the outstanding accounts receivable balances due from Hawaiian Telcom were delinquent, allowance reserves in the total amount of $4.9 million had been recorded as bad debt expense in previous years (consisting of $3.5 million for Hawaiian Electric, $1.3 million for Hawaiʻi Electric Light and $0.1 million for Maui Electric).

c. The 2019 Annual Decoupling filings incorporate the following:

- Rate Base RAM – the Adjusted Recorded Balance at 12/31/2018, "Net Cost of Plant in Service" incorporates the transfer price of the poles (value as of December 31, 2017) offset by a deferred credit for unbilled pole revenue.[1]
- Depreciation & Amortization RAM - under current company practices, depreciation will start in January 2019; therefore Depreciation & Amortization RAM for 2019 includes depreciation of the transferred poles.

[1] The accounting and ratemaking treatment in connection with the Joint Pole Transfer, including unbilled pole revenues, was discussed in Exhibit E of the Joint Pole Application, which was approved by the Commission in Decision and Order No. 35768 in Docket No. 2018-0075.

- O&M RAM -Test year O&M expenses for all three Companies that is the basis for the O&M RAM do not include incremental O&M costs related to acquiring Hawaiian Telcom's equity interest in the joint poles and related equipment.

The release of reserves due to the settlement of the outstanding accounts receivables of $1.6 million was recorded as interest income in 2018 and was excluded from Operating Income on Schedule H, line 1 in the Earnings Sharing calculation.

d. The term "third party revenues" refers to revenue received from "third-party attachers" which refers to competitive local exchange carriers, cable television providers, and others. Pole attachment revenues totaling $4.4 million which relate to the recovery on and of the ownership interest transferred are reflected as an offset (reduction) to O&M RAM, Rate Base RAM and Depreciation & Amortization RAM in the determination of the RAM Revenue Adjustment according to existing tariffs and procedures (see Schedule A1, line 4 of the 2019 Annual Decoupling filing.) The treatment is in accordance with Decision and Order No. 35768, Docket No. 2018-0075, which states that attachment and ancillary revenues received from Hawaiian Telcom and other third party attachers for use of the poles are reflected in other operating revenue and will offset any depreciation costs of transferred poles and related equipment, and the authorized return to the Companies shareholders. Costs to maintain the poles are included as normal maintenance expenses of the utility and incremental pole maintenance costs will be offset with attachment revenues.

INFORMAL CA-IR-49

Ref. HECO Companies' Schedule A1 (Joint Pole Revenues).

In summarizing the traditional RAM Revenue Adjustment at Schedule A1, each of the HECO Companies show a reduction for existing joint pole attachment revenues (HECO $2,371,930, HELCO $1,377,208 and MECO $650,862). The HELCO amount ties to HELCO-2222 at 6 and HELCO-WP-2222 at 1 in HELCO's pending rate case (Docket No. 2018-0368). The HELCO amount reflected on RAM Schedule A1 excludes new pole attachment revenues, double pole remediation revenues, unbilled pole revenues and other attachment/ancillary revenues. Please provide the following:

a. Please explain why each Company only shows existing pole attachment revenues as a reduction to the traditional RAM Revenue Adjustment and no amounts for new pole attachment revenues, double pole remediation revenues, unbilled pole revenues and other attachment/ancillary revenues.
b. Please explain why the HECO Companies RBA/RAM filings did not consider any revenues (existing joint pole attachment revenues, new pole attachment revenues, double pole remediation revenues, unbilled pole revenues and other attachment/ancillary revenues) resulting from the joint pole transfer to not qualify as an "Exceptional and Other Matters" that should be recognized as a reduction to the 2019 Cap – Total RAM Revenue Adjustment.
c. For HECO and MECO, please provide 2019 new pole attachment revenues, double pole remediation revenues, unbilled pole revenues and other attachment/ancillary revenues comparable to HELCO-2222/HELCO-WP-2222.

Hawaiian Electric Companies' Response:

a. Included within each Company's net cost of plant in service balance at December 31, 2018 is an amount representing the Joint Pole Capital Transfer Price which was recorded by each Company in December 2018.[1] As it is reflected in the net cost of plant in service balance at December 31, 2018, it is also included in the depreciation and amortization RAM adjustment calculated in each respective Company's Schedule E. For each Company the Joint Pole Capital Transfer Price represents the acquisition price of Hawaiian Telcom's joint pole equity ownership shares for all the existing jointly-owned poles at the time of

[1] Hawaiian Electric: $24,665,897, Maui Electric: $4,195,974, Hawai'i Electric Light: $19,108,221 per each respective Schedule D2.

settlement for each respective Company. Inclusion of these joint pole assets in the 2019 RAM Rate Base in Schedule D1 and in the depreciation and amortization RAM adjustment calculation in Schedule E properly captures each Company's investment in these assets and recognizes the deprecation of these assets. Therefore, included within each Company's 2019 Decoupling Filing is an appropriate return on and of its acquisition of all the existing jointly-owned poles. The existing pole attachment revenues are received from Hawaiian Telcom for their use of the existing jointly-owned poles acquired by the Companies. The Companies reduced the calculation of the RAM revenue amount (which considered the acquired equity interest in the joint poles) for the attachment revenues from Hawaiian Telcom to not double recover the return on and of the investment in the acquired interest in the joint poles, as the Companies will be getting attachment revenues from Hawaiian Telcom.

Double pole remediation revenues are not a reduction in the RAM Revenue Adjustment calculation as they represent revenues to cover the expense of double-pole remediation. Those expenses are not included in the O&M which is the basis for the O&M RAM.

New pole attachment revenues and other attachment/ancillary revenues are not a reduction in the RAM Revenue Adjustment calculation as they represent revenues which would derive from attachments placed on new or additional poles above and beyond the current existing poles and any incremental costs related to these revenues are not captured within the 2019 Decoupling Filing so are not included in the RAM Revenue Adjustment for each respective Company. Therefore, a reduction in the RAM Revenue Adjustment for these other revenues is not required.

The Unbilled Pole Revenues have been recorded by each Company in December 2018 as a miscellaneous other deferred credit. This deferred credit is a reduction to net plant and rate base in the 2019 Decoupling Filing (see Schedule D1 footnote). The deferred credits will be amortized over a three-year period, beginning when rates approved in a subsequent rate case become effective. This is expected to be in 2019 for Hawai‘i Electric Light, 2020 for Hawaiian Electric and 2021 for Maui Electric. The deferred credit amount is reflected as a reduction to the net cost of plant in service balance at December 31, 2018 in Schedule D1. Amortization of the unbilled pole credit for Hawai‘i Electric Light will be effective when rates become effective in the 2019 Test Year rate case; therefore no adjustment to the RAM Revenue Adjustment Allowed is necessary.

b. The determination of the RAM Cap in Schedule J for each respective Company is based on the last rate order target annual revenues. For Hawai‘i Electric Light that is the 2016 Test Year Rate Case, Docket No. 2015-0170; for Hawaiian Electric that is the 2017 Test Year Rate Case, Docket No. 2016-0328; and for Maui Electric that is the 2018 Test Year Rate Case, Docket No. 2017-0150. The joint pole transaction was approved by the Commission on October 16, 2018 in Decision and Order No. 35768, Docket No. 2018-0075. The receipt of the Commission's order in this proceeding was received subsequent to the most recent test year rate cases for each Company. Therefore, there is no recovery of costs (including return on and of investment in any joint pole assets or incremental costs) related to the joint pole proceeding included within the last rate order target annual revenues used in the calculation of the RAM Cap in Schedule J. As such, no reductions to the RAM Cap for existing joint pole attachment revenues, new pole attachment revenues, double pole remediation revenues and other attachment/ancillary revenues is required.

c. Hawaiian Electric and Maui Electric have the following preliminary estimates of Hawaiian Telcom 2019 revenues:

	HECO	MECO
HT existing pole attachment rev	2,371,807	650,798
HT new pole attachment rev	23,234	4,100
HT double pole remediation rev	334,693	127,804
Other attachment/ancillary rev	2,243,017	474,992
	4,972,752	1,257,694

Unbilled pole revenue amortization not included in schedule.

Refinement of estimates is ongoing.

INFORMAL CA-IR-50

Ref. HECO/HELCO/MECO Schedule A1 (Joint Pole Transfer – "Net Neutral").

HELCO-2222 at 1 in HELCO's pending rate case (Docket No. 2018-0368) explains that the 2019 "test year pole attachment and ancillary revenues from Hawaiian Telcom and third party attachers (e.g. wireline and wireless broadband and communication service providers) will exceed the associated incremental O&M costs, depreciation and the allowed return on the additional investment in the poles, resulting in a net neutral impact on the Company's test year revenue requirement." Please provide the following:

a. For each utility, please provide all joint pole revenues, expenses, taxes and rate base amounts and demonstrate that the RBA/RAM impact of recognizing the joint pole transfer is "net neutral".
b. For each utility in 2018, please provide all joint pole revenues, expenses, taxes and rate base amounts and demonstrate that the RBA/RAM impact is "net neutral" in calculating whether there are any Earnings Sharing Revenue Credits.

Hawaiian Electric Companies Response:

a. Hawai'i Electric Light submitted the financial impact of revenues, expenses, and rate base items associated with the joint pole transfer (i.e., return on investment) in HELCO-2222 and HELCO-WP-2222 in its 2019 test year rate case, Docket No. 2018-0368. However, there is no such analyses or calculation prepared for the determination of the RAM revenue adjustment within the 2019 decoupling filings for all three Companies.

b. See transmittal to Public Utilities Commission dated March 29, 2019, Docket No. 2018-0075 – Hawaiian Telcom, Inc. Transaction Regarding Joint Poles – Hawaiian Electric Companies' 2018 Annual Report for the consolidated report of revenues, costs and conceptual allowed return on pole assets (grossed-up for revenue and income taxes). See Attachment 1 to this response for a breakdown by utility.

INFORMAL CA-IR-50
2019 RBA RATE FILING
ATTACHMENT 1
PAGE 1 OF 1

Hawaiian Electric Companies
Annual Report of Revenues and Costs
2018

			Consolidated	Hawaiian Electric	Hawaii Electric Light	Maui Electric
Revenues						
1	HT existing pole attachment revenues		4,400,000	2,371,930	1,377,208	650,862
2	HT new pole attachment revenues		-	-	-	-
3	HT double pole remediation revenues		650,000	334,693	187,503	127,804
4	HT unbilled pole revenues		-	-	-	-
5	Other attachment/ ancillary revenues		272,318	155,088	97,649	19,581
6	Revenues Total		5,322,318	2,861,711	1,662,360	798,247
Expenses						
7	Incremental O&M expense		305,002	154,717	143,775	6,510
8	Double pole remediation expense		-	-	-	-
9	Depreciation expense		-	-	-	-
10	Insurance expense		-	-	-	-
11	Taxes other than Income		29,742	15,087	14,020	635
12	Expenses Total		334,744	169,804	157,795	7,145
13	**Revenues - Expenses net**		**4,987,574**	**2,691,907**	**1,504,565**	**791,102**
14	Conceptual allowed return on pole assets (grossed-up for revenue and income taxes)		2,242,558	1,098,464	970,222	173,871
15	**NET**		**2,745,017**	**1,593,443**	**534,343**	**617,231**
Joint Pole Rate Base Impact						
Investment in Assets Serving Customers						
16	Plant in service - 2018 plant additions		47,970,092	24,665,897	19,108,221	4,195,974
Funds from Non-investors						
17	Accumulated deferred income tax	beg.	-	-	-	-
18		end.	(960,650)	(903,770)	(56,880)	-
19		avg	(480,325)	(451,885)	(28,440)	-
20	Unbilled pole credit	beg.	(6,400,001)	(4,434,502)	(937,434)	(1,028,065)
21		end.	(6,400,001)	(4,434,502)	(937,434)	(1,028,065)
22		avg	(6,243,762)	(4,434,502)	(781,195)	(1,028,065)

INFORMAL CA-IR-65

Ref: HECO-WP-M-003 (Interruption Report Codes).

Please confirm that the Companies are proposing calendar year 2018 and future year removal of all Class D, Type 2 outages in calculating SAIDI and SAIFI results to administer the PIM tariffs and would not object to consistent recalculation of the 10-year average targets for SAIDI and SAIFI for each utility to achieve consistency, or explain in detail any inability to provide unqualified confirmation of this characterization of the Companies' proposal.

Hawaiian Electric Companies Response:

To clarify, for the 2019 annual decoupling filing, Hawaiian Electric is requesting to only exclude outages related the July 2018 25kV project for the purposes of the 2018 SAIDI and SAIFI PIMs reporting. Hawaiian Electric is not proposing to recalculate 2018 PIM targets, deadbands, and financial incentives. Hawaiian Electric is making this one-time request to exclude the 25kV project due to the unique nature of the project, as discussed in the response to Informal CA-IR-64, in this proceeding. The work and circumstances involved in the July 2018 25kV project are unprecedented; there were no similar types of projects in the 2008-2017 timeframe and therefore, no corresponding outages to exclude from the calculation of the 2018 PIM target. By proactively planning limited outages over a compressed period of time during July 2018, the Company was able to replace all 25kV splices in a manner that addressed the employee health and safety issues while providing advance notice to and coordination of the work with customers to minimize customer inconvenience, risk of loss and frustration.

Beginning with the 2019 PIM reporting, the Companies will request (among other things in a separate forthcoming filing) that all scheduled maintenance related outages and events be removed from SAIDI and SAIFI PIM calculations. The Companies intend to also propose to recalculate their current SAIDI and SAIFI PIM targets and deadbands to remove scheduled maintenance related outages and update their PIM tariffs accordingly. The 2019 and ongoing SAIDI and SAIFI PIM reporting will still include other maintenance related outages, such as forced and system change outages.

INFORMAL CA-IR-69

Ref: HECO/HELCO/MECO Attachment 1A Redline Tariffs (SAIDI and SAIFI Exclusions).

HECO proposes to exclude outage events associated with 25kV Proactive Work, as proposed in tariff Transmittal No. 18-05. However, the Attachment 1A tariff edits proposed by the utilities contain no proposed revisions to existing SAIDI or SAIFI performance targets or deadband values that would appear to be needed, in order to redefine targeted performance from historical data on the same basis as measured performance that excludes "proactive work". Please respond to the following:

a. State and explain whether the Companies are, in fact, proposing any revisions to their Performance Incentive Mechanism Provision tariffs.
b. If PIM tariff revisions, beyond the indicated "Additional PIMs" language are being proposed, please provide a revised Attachment 1A indicating all proposed changes.
c. Do the HECO Companies contend that the recorded input date used in calculating SAIDI and SAIFI actual evaluation period performance can be modified and still be in compliance with the PIM tariffs that were effective in 2018?
d. Please explain any affirmative response to part (c) with citation to the relevant provisions of the tariff or any other authority that is relied upon.
e. Do the HECO Companies contend that the recorded input date used in calculating SAIDI and SAIFI actual performance and 2018 PIM penalties can be modified and still be reasonably compared to the Performance Targets stated within the PIM tariff to administer rewards and penalties?
f. Please explain any affirmative response to part (e) with citation to the relevant provisions of the tariff or any other authority that is relied upon.

Hawaiian Electric Companies Response:

a. As stated in Transmittal Nos. 19-01, 19-02, and 19-03, the Companies are proposing a revision to the PIM Provision tariff to allow the Companies to incorporate the establishment and implementation of any future Commission approved PIMs. However, as explained in the response to part c below, approval of this proposed revision is not a prerequisite to excluding the July 2018 25kV outages from the SAIDI and SAIFI PIMs reporting.

For the 2019 annual decoupling filing, Hawaiian Electric is requesting to exclude only the outages related the July 2018 25kV project for the purposes of the 2018 SAIDI and SAIFI PIMs reporting. Hawaiian Electric is not proposing to recalculate 2018 PIM targets, deadbands, and financial incentives. Hawaiian Electric is making this one-time request to exclude the 25kV project due to the unique nature of the project, as described in the response to Informal CA-IR-65. Therefore, Hawaiian Electric is not proposing any further PIM tariff revisions as part of the 2019 annual decoupling filings.

b. Not applicable

c. Hawaiian Electric assumes that the question intended to refer to "input data", as opposed to "input date". It is Hawaiian Electric's position that with Commission approval the recorded input data relating to the 25 kV project work can be excluded from the calculation of SAIDI and SAIFI actual 2018 evaluation period performance. In addition, Hawaiian Electric believes that the Performance Incentive Mechanism Tariff allows Hawaiian Electric's requested adjustment of 2018 SAIDI and SAIFI measured performance, specifically, the exclusion from the calculation of SAIDI and SAIFI action 2018 evaluation period performance of the recorded input data relating to the 25 kV project work. The "Annual PIM Provision Transmittal" section of the PIM Tariff (Sheet No. 98, effective January 1, 2018) describes the documentation of measured performance, and further states, "The Company will be prepared to provide information as may be requested to ensure adequate review by the Commission, Consumer Advocate, other rate case parties, and other interested persons that may propose any adjustments necessary to bring the schedules into compliance with the above provisions and will work collaboratively to reach agreement on any proposed adjustments." In addition, the PIM Tariff states that the Commission may suspend any or all parts of the PIM Provision.

d. Please see the response to part c.

e. Please see the response to Informal CA-IR-64, part e.

f. Please see the response to part e.

INFORMAL CA-IR-76

Ref: HECO/HELCO/MECO (Joint Pole Transfer).

In D&O 35768 (Docket 2018-0075) at 69, the Commission approved the proposed accounting and ratemaking treatment stating, in part:

> 12. Based on the foregoing and subject to the condition below, the commission finds as reasonable the accounting and ratemaking treatment proposed by Applicants.
> 13. In making this determination, the commission underscores that its finding of reasonableness as to ratemaking treatment is based in large part on the HECO Companies' statements that they project that future revenue associated with these poles will offset the Proposed Transfer Price and related expenses, including O&M expenses.

Please provide the following:

a. Were any analyses or calculations prepared by, or for, the HECO Companies to determine whether the revenues included in the 2019 RBA/RAM filings were sufficient to offset the proposed transfer price (e.g., return on investment) and any related expenses (e.g., depreciation/amortization expense) included in such filings? Please explain.
b. If the response to part a. above is negative, please explain why such calculations were not undertaken.
c. If the response to part a. above is affirmative, please provide such calculations in spreadsheet file format.

Hawaiian Electric Companies Response:

a. Hawai'i Electric Light submitted the financial impact of revenues, expenses, and rate base items associated with the joint pole transfer (i.e., return on investment) in HELCO-2222 and HELCO-WP-2222 in its 2019 test year rate case, Docket No. 2018-0368. However, there are no such analyses or calculations prepared for the determination of the RAM revenue adjustment within the 2019 decoupling filings for all three Companies.
b. Similar calculations will be undertaken for Hawaiian Electric in the upcoming 2020 test year rate case as well as for Maui Electric in the 2021 test year rate case.
c. Not applicable.

HAWAII ELECTRIC LIGHT COMPANY, INC.
DECOUPLING CALCULATION WORKBOOK
SUMMARY OF ACCUMULATED REVENUE BALANCING ACCOUNT

Line No.	Month (a)	Beginning Balance (b)	Target Revenues (c)	Recorded Adjusted Revenue (d)	Variance to RBA (e)	Adjustment for Prior Year RBA recovery (f)	Adjustment (g)	Tax-effected Balances Subject to Interest (h)	Interest at 3.25%/year (i)	Ending Balance (j)	CA Revised 1.5% @ 9/1/17 Interest
	Monthly RBA Balance and Activity (Monthly PUC Rpt., Pg. 9A)										
1	2016 December	$ 3,135,681	$ 12,396,468	$ 12,033,954	$ 362,514	$ (485,066)	$ -	$ 1,878,154	$ 5,087	$ 3,018,216	
2											
3	2017 January	$ 3,018,216	$ 12,104,787	$ 11,644,685	$ 460,102	$ (453,616)	$ -	$ 1,845,809	$ 4,999	$ 3,029,701	
4	February	$ 3,029,701	$ 11,040,149	$ 10,719,526	$ 320,623	$ (416,854)	$ -	$ 1,821,451	$ 4,933	$ 2,938,403	
5	March	$ 2,938,403	$ 12,192,291	$ 11,961,371	$ 230,920	$ (468,331)	$ -	$ 1,722,553	$ 4,665	$ 2,705,657	
6	April	$ 2,705,657	$ 11,667,264	$ 11,592,133	$ 75,131	$ (452,872)	$ -	$ 1,537,505	$ 4,164	$ 2,332,080	
7	May	$ 2,332,080	$ 12,206,875	$ 11,730,455	$ 476,420	$ (459,241)	$ 2,041	$ 1,431,162	$ 3,876	$ 2,355,176	
8	June	$ 2,355,176	$ 12,156,545	$ 11,749,073	$ 407,472	$ (250,969)	$ -	$ 1,486,581	$ 4,026	$ 2,515,705	
9	July	$ 2,515,705	$ 12,855,881	$ 12,409,586	$ 446,295	$ (268,212)	$ -	$ 1,591,240	$ 4,310	$ 2,698,098	
10	August	$ 2,698,098	$ 13,174,872	$ 12,868,578	$ 306,294	$ (283,330)	$ (26,810)	$ 1,638,904	$ 4,439	$ 2,698,691	
11	September	$ 2,698,780	$ 12,948,215	$ 12,610,693	$ 337,522	$ (252,231)	$ (88)	$ 1,674,683	$ 4,536	$ 2,786,076	$ 2,093
12	October	$ 2,786,076	$ 13,476,360	$ 13,148,498	$ 327,862	$ (268,273)	$ -	$ 1,720,215	$ 4,659	$ 2,847,815	$ 2,150
13	November	$ 2,847,815	$ 13,027,042	$ 12,500,711	$ 526,331	$ (255,398)	$ -	$ 1,822,487	$ 4,936	$ 3,121,026	$ 2,278
14	December	$ 3,121,026	$ 13,230,418	$ 12,492,192	$ 738,226	$ (253,086)	$ -	$ 2,054,821	$ 5,565	$ 3,608,735	$ 2,569
15	Total		$ 150,080,699	$ 145,427,501	$ 4,653,198	$ (4,082,413)	$ (24,857)		$ 55,108	*To Sch A*	
								Last 4 Mos Interest	$ 19,696		$ 9,090
								CA Proposed Adj			$ (10,606)
16											
17	2018 January	$ -	$ 13,301,362	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
18	February	$ -	$ 12,451,601	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
19	March	$ -	$ 13,258,795	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
20	April	$ -	$ 12,725,921	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
21	May	$ -	$ 12,317,361	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
22	June	$ -	$ 12,249,452	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
23	July	$ -	$ 13,081,645	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
24	August	$ -	$ 13,284,767	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
25	September	$ -	$ 12,449,542	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
26	October	$ -	$ 12,957,347	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
27	November	$ -	$ 12,525,334	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
28	December	$ -	$ 12,720,877	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
			$ 153,324,004								
	Sources of Data:		Sch B1	Sch B2	Col (c) - (d)	Note 2	Note 1	Cols (b)+(g)+((e)+(f))/2/(l)		Cols (b)+(e)+(f)+(g)+(i)	

Composite Federal & State Income Tax Rate	38.91%	(k)
Income Tax Factor (1/1-tax rate)	1.636929	(l)

Note 1: Adjustment Summary

Year Month	Workpaper Reference	RBA True-up Adjustment Sch B2, Line 16	RBA Interest Adjustments	Total Adjustment	Adjustment Description:
2017 May	HELCO-WP-B-002	$ 2,041	$ -	$ 2,041	Adj to correct customer rate schedule from G to R
2017 August	HELCO-WP-B-003	$ (24,734)	$ (2,077)	$ (26,810)	Adj for overstatement of Sch F kWh sales (Jan 2015-Jul 2017)
2017 September	-	$ -	$ (88)	$ (88)	Correction to August 2017 RBA interest calculation

Pursuant to D&O No. 34581 issued on May 31, 2017, beginning June 2017, entries to the RBA to correct individual billing errors of $5,000 or greater have been eliminated.

Note 2: Amounts represent recovery of prior years' RBA balance through the RBA rate adjustment effective June 1, 2016 for the period June 2016 through May 2017 and June 1, 2017 for

HAWAIIAN ELECTRIC COMPANIES
TRANSMITTALS 19-01, 19-02, 19-03 (DECOUPLING)
INCREMENTAL REVENUE IMPACTS

Line No.	Description	INCREMENTAL CHANGE HECO (W/Out West Loch)	HECO (With West Loch)	HELCO	MECO
	(a)	(c)	(b)	(d)	(e)
1	RECONCILIATION OF RBA BALANCE:				
2	RBA Prior calendar year-end balance	$ (13,018,397)	$ (13,018,397)	$ (2,101,607)	$ 592,940
2a	OBF Program Implementation Cost Recover	$ 843,511	$ 843,511	$ 236,819	$ 198,482
3	Revenue for RBA Balance	$ (12,174,886)	$ (12,174,886)	$ (1,864,789)	$ 791,422
4	RATE ADJUSTMENT MECHANISM "RAM" AMOUNT:				
5	Joint Pole - RAM Effect	$ 1,015,490	$ 1,015,490	$ 1,443,701	$ (73,838)
6	Remaining RAM Revenue Adjustment	$ 12,213,236	$ 13,102,288	$ 2,092,421	$ 3,425,726
7	Total RAM Revenue Adjustment	$ 13,228,726	$ 14,117,778	$ 3,536,122	$ 3,351,888
8	EARNINGS SHARING REVENUE CREDITS	$ -	$ -	$ -	$ -
9	PERFORMANCE INCENT. MECH. REWARD (PENALTY)	$ 53,998	$ 53,998	$ (15,435)	$ (394,917)
10	TEST YEAR RATE CASE FINAL D&O REFUND:	$ (48,000)	$ (48,000)	$ (74,000)	$ -
11	PUC-ORDEREDCAPITAL PROJECT CREDITS	$ -	$ -	$ -	$ (10,353)
12	TOTAL RBA REVENUE ADJUSTMENT	$ 1,059,839	$ 1,948,891	$ 1,581,898	$ 3,738,040
		Note A	Note B	Note C	Note D

Note A Source: Exhibit 7, CA-SOP-WP-7.1, page 2.
Note B Source: Exhibit 7, CA-SOP-WP-7.1, page 3.
Note C Source: Exhibit 7, CA-SOP-WP-7.1, page 4.
Note D Source: Exhibit 7, CA-SOP-WP-7.1, page 5.

HAWAIIAN ELECTRIC COMPANY, INC.
TRANSMITTAL 19-01 (DECOUPLING)
INCREMENTAL REVENUE IMPACTS
[WITHOUT WEST LOCH]

Line No.	Description	HECO Reference	2019 Application	2018 Approved	Increment
	(a)	(b)	(c)	(d)	(e)
1	RECONCILIATION OF RBA BALANCE:				
2	RBA Prior calendar year-end balance	Att. 2A, Sch. A	$ 41,013,214	$ 54,031,611	$ (13,018,397)
2a	OBF Program Implementation Cost Recover	Att. 2A, Sch. A	$ 843,511		$ 843,511
3	Revenue for RBA Balance		$ 41,856,725	$ 54,031,611	$ (12,174,886)
4	RATE ADJUSTMENT MECHANISM "RAM" AMOUNT:				
5	Joint Pole - RAM Effect	Note A	$ 1,015,490		$ 1,015,490
6	Remaining RAM Revenue Adjustment	Ln 7 - Ln 5	$ 26,041,145	$ 13,827,909	$ 12,213,236
7	Total RAM Revenue Adjustment	Att. 2A, Sch. A	$ 27,056,635	$ 13,827,909	$ 13,228,726
8	EARNINGS SHARING REVENUE CREDITS	Att. 2A, Sch. A	$ -	$ -	$ -
9	PERFORMANCE INCENTIVE MECHANISM REWARD (PENALTY)	Att. 2A, Sch. A	$ 53,998	$ -	$ 53,998
10	TEST YEAR RATE CASE FINAL D&O REFUND:	Att. 2A, Sch. A	$ (48,000)	$ -	$ (48,000)
11	PUC-ORDERED MAJOR OR BASELINE CAPITAL PROJECT CREDITS	Att. 2A, Sch. A	$ -	$ -	$ -
12	TOTAL RBA REVENUE ADJUSTMENT		$ 68,919,358	$ 67,859,520 Note B	$ 1,059,839

Note A Source: Exhibit 7, CA-SOP-WP-7.2, page 2.
Note B Source: Response to Informal CA-IR-4.

HAWAIIAN ELECTRIC COMPANY, INC.
TRANSMITTAL 19-01 (DECOUPLING)
INCREMENTAL REVENUE IMPACTS
[WITH WEST LOCH]

Line No.	Description	HECO Reference	2019 Application	2018 Approved	Increment
	(a)	(b)	(c)	(d)	(e)
1	RECONCILIATION OF RBA BALANCE:				
2	RBA Prior calendar year-end balance	Att. 2, Sch. A	$ 41,013,214	$ 54,031,611	$ (13,018,397)
2a	OBF Program Implementation Cost Recover	Att. 2, Sch. A	$ 843,511		$ 843,511
3	Revenue for RBA Balance		$ 41,856,725	$ 54,031,611	$ (12,174,886)
4	RATE ADJUSTMENT MECHANISM "RAM" AMOUNT:				
5	Joint Pole - RAM Effect	Note A	$ 1,015,490		$ 1,015,490
6	Remaining RAM Revenue Adjustment	Ln 7 - Ln 5	$ 26,930,197	$ 13,827,909	$ 13,102,288
7	Total RAM Revenue Adjustment	Att. 2, Sch. A	$ 27,945,687	$ 13,827,909	$ 14,117,778
8	EARNINGS SHARING REVENUE CREDITS	Att. 2, Sch. A	$ -	$ -	$ -
9	PERFORMANCE INCENTIVE MECHANISM REWARD (PENALTY)	Att. 2, Sch. A	$ 53,998	$ -	$ 53,998
10	TEST YEAR RATE CASE FINAL D&O REFUND:	Att. 2, Sch. A	$ (48,000)	$ -	$ (48,000)
11	PUC-ORDERED MAJOR OR BASELINE CAPITAL PROJECT CREDITS	Att. 2, Sch. A	$ -	$ -	$ -
12	TOTAL RBA REVENUE ADJUSTMENT		$ 69,808,410	$ 67,859,520 Note B	$ 1,948,891

Note A Source: Exhibit 7, CA-SOP-WP-7.2, page 2.
Note B Source: Response to Informal CA-IR-4.

HAWAII ELECTRIC LIGHT COMPANY, INC.
TRANSMITTAL 19-02 (DECOUPLING)
INCREMENTAL REVENUE IMPACTS

Line No.	Description	HELCO Reference	2019 Application	2018 Approved	Increment
	(a)	(b)	(c)	(d)	(e)
1	RECONCILIATION OF RBA BALANCE:				
2	RBA Prior calendar year-end balance	Att. 2, Sch. A	$ 1,870,647	$ 3,972,254	$ (2,101,607)
2a	OBF Program Implementation Cost Recover	Att. 2, Sch. A	$ 236,819		$ 236,819
3	Revenue for RBA Balance		$ 2,107,465	$ 3,972,254	$ (1,864,789)
4	RATE ADJUSTMENT MECHANISM "RAM" AMOUNT:				
5	Joint Pole - RAM Effect	Note A	$ 1,443,701		$ 1,443,701
6	Remaining RAM Revenue Adjustment	Ln 7 - Ln 5	$ 8,669,134	$ 6,576,713	$ 2,092,421
7	Total RAM Revenue Adjustment	Att. 2, Sch. A	$ 10,112,835	$ 6,576,713	$ 3,536,122
8	EARNINGS SHARING REVENUE CREDITS	Att. 2, Sch. A	$ -	$ -	$ -
9	PERFORMANCE INCENTIVE MECHANISM REWARD (PENALTY)	Att. 2, Sch. A	$ (15,435)	$ -	$ (15,435)
10	TEST YEAR RATE CASE FINAL D&O REFUND:	Att. 2, Sch. A	$ (74,000)	$ -	$ (74,000)
11	PUC-ORDERED MAJOR OR BASELINE CAPITAL PROJECT CREDITS	Att. 2, Sch. A	$ -	$ -	$ -
12	TOTAL RBA REVENUE ADJUSTMENT		$ 12,130,866	$ 10,548,968	$ 1,581,898
				Note B	

Note A Source: Exhibit 7, CA-SOP-WP-7.2, page 2.
Note B Source: Response to Informal CA-IR-4.

MAUI ELECTRIC COMPANY, LIMITED
TRANSMITTAL 19-03 (DECOUPLING)
INCREMENTAL REVENUE IMPACTS

Line No.	Description	MECO Reference	2019 Application	2018 Approved	Increment
	(a)	(b)	(c)	(d)	(e)
1	RECONCILIATION OF RBA BALANCE:				
2	RBA Prior calendar year-end balance	Att. 2, Sch. A	$ 6,677,825	$ 6,084,885	$ 592,940
2a	OBF Program Implementation Cost Recover	Att. 2, Sch. A	$ 198,482	$ -	$ 198,482
3	Revenue for RBA Balance		$ 6,876,307	$ 6,084,885	$ 791,422
4	RATE ADJUSTMENT MECHANISM "RAM" AMOUNT:				
5	Joint Pole - RAM Effect	Note A	$ (73,838)	$ -	$ (73,838)
6	Remaining RAM Revenue Adjustment	Ln 7 - Ln 5	$ 3,425,726	$ -	$ 3,425,726
7	Total RAM Revenue Adjustment	Att. 2, Sch. A	$ 3,351,888	$ -	$ 3,351,888
8	EARNINGS SHARING REVENUE CREDITS	Att. 2, Sch. A	$ -	$ -	$ -
9	PERFORMANCE INCENTIVE MECHANISM REWARD (PENALTY)	Att. 2, Sch. A	$ (394,917)	$ -	$ (394,917)
10	TEST YEAR RATE CASE FINAL D&O REFUND:	Att. 2, Sch. A	$ -	$ -	$ -
11	PUC-ORDERED MAJOR OR BASELINE CAPITAL PROJECT CREDITS	Att. 2, Sch. A	$ (10,353)	$ -	$ (10,353)
12	TOTAL RBA REVENUE ADJUSTMENT		$ 9,822,924	$ 6,084,885	$ 3,738,040
				Note B	

Note A Source: Exhibit 7, CA-SOP-WP-7.2, page 2.
Note B Source: Response to Informal CA-IR-4.
MECO's prior rate case was a 2018 test year, which rebased the RBA/RAM.

HAWAIIAN ELECTRIC COMPANIES
TRANSMITTALS 19-01, 19-02, 19-03 (DECOUPLING)
JOINT POLE REVENUES

HECO Joint Pole Revenues	2019	Reference
HT existing pole attachment	$ 2,371,807	Source: Informal CA-IR-49
HT new pole attachment	23,234	Source: Informal CA-IR-49
HT double pole remediation	334,693	Source: Informal CA-IR-49
HT unbilled pole	-	
Other attachment/ancillary	2,243,017	Source: Informal CA-IR-49
Subtotal	4,972,751	w/out interest income
Uncollectible Interest Income	700,000	Source: Informal CA-IR-48
CA Recommendation	$ 5,672,751	w/ interest income

HELCO Joint Pole Revenues	2019	Reference
HT existing pole attachment	$ 1,377,208	Source: HELCO-WP-2222
HT new pole attachment	295	Source: HELCO-WP-2222
HT double pole remediation	187,503	Source: HELCO-WP-2222
HT unbilled pole	312,478	Source: HELCO-WP-2222
Other attachment/ancillary	1,736,102	Source: HELCO-WP-2222
Subtotal	3,613,586	w/out interest income
Uncollectible Interest Income	700,000	Source: Informal CA-IR-48
CA Recommendation	$ 4,313,586	w/ interest income

MECO Joint Pole Revenues	2019	Reference
HT existing pole attachment	$ 650,798	Source: Informal CA-IR-49
HT new pole attachment	4,100	Source: Informal CA-IR-49
HT double pole remediation	127,804	Source: Informal CA-IR-49
HT unbilled pole	-	
Other attachment/ancillary	474,992	Source: Informal CA-IR-49
Subtotal	1,257,694	w/out interest income
Uncollectible Interest Income	200,000	Source: Informal CA-IR-48
CA Recommendation	$ 1,457,694	w/ interest income

Source: Exhibit 7, CA-SOP-WP-7.2, page 1.

HAWAIIAN ELECTRIC COMPANIES
TRANSMITTALS 19-01, 19-02, 19-03 (DECOUPLING)
COMPARISON OF JOINT POLE REVENUES & COSTS

HECO Joint Pole Revenues & Costs	2019 Est.
Depreciation RAM	$ 917,713
Rate Base RAM-Return on Investment	2,469,707
Joint Pole RAM Costs	3,387,420
Less: HECO Proposed Joint Pole Revs	(2,371,930)
HECO RAM Costs in Excess of Revenues	$ 1,015,490

	HECO Joint Pole Costs		
		Dep Exp	
	PIS	3.39%	Source: HECO Schedule E
Plant	$ 24,665,897	$ 836,174	Source: Informal CA-IR-50
Accum Depr	-		
ADIT Reserve	(903,770)		Source: Informal CA-IR-50
Total	$ 23,762,127	$ 836,174	
Pre-Tax ROR	9.4700%	1.0000	Source: HECO Schedule D
Rev Tax Factor	1.0975	1.0975	Source: HECO Schedule D
Total Pre-Tax ROI	10.3935%	1.0975	
RB RAM - ROI	$ 2,469,707	$ 917,713	

HELCO Joint Pole Revenues & Costs	2019 Est.
Depreciation RAM	$ 792,724
Rate Base RAM-Return on Investment	2,028,184
Joint Pole RAM Costs	2,820,909
Less: HELCO Proposed Joint Pole Revs	(1,377,208)
HELCO RAM Costs in Excess of Revenues	$ 1,443,701

	HELCO Joint Pole Costs		
		Dep Exp	
	PIS	3.78%	Source: HELCO Schedule E
Plant	$ 19,108,221	$ 722,291	Source: Informal CA-IR-50
Accum Depr	-		
ADIT Reserve	(56,880)		Source: Informal CA-IR-50
Total	$ 19,051,341	$ 722,291	
Pre-Tax ROR	9.7000%	1.0000	Source: HELCO Schedule D
Rev Tax Factor	1.0975	1.0975	Source: HELCO Schedule D
Total Pre-Tax ROI	10.6459%	1.0975	
RB RAM - ROI	$ 2,028,184	$ 792,724	

MECO Joint Pole Revenues & Costs	2019 Est.
Depreciation RAM	$ 146,904
Rate Base RAM-Return on Investment	430,120
Joint Pole RAM Costs	577,024
Less: MECO Proposed Joint Pole Revs	(650,862)
MECO RAM Costs Below Revenues	$ (73,838)

Source: Exhibit 7, CA-SOP-WP-7.2, page 2.

	MECO Joint Pole Costs		
		Dep Exp	
	PIS	3.19%	Source: MECO Schedule E
Plant	$ 4,195,974	$ 133,852	Source: Informal CA-IR-50
Accum Depr	-		
ADIT Reserve	-		Source: Informal CA-IR-50
Total	$ 4,195,974	$ 133,852	
Pre-Tax ROR	9.3400%	1.0000	Source: MECO Schedule D
Rev Tax Factor	1.0975	1.0975	Source: MECO Schedule D
Total Pre-Tax ROI	10.2508%	1.0975	
RB RAM - ROI	$ 430,120	$ 146,904	

CERTIFICATE OF SERVICE

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

DEAN K. MATSUURA MANAGER, REGULATORY RATE PROCEEDINGS HAWAIIAN ELECTRIC COMPANY, INC. P.O. Box 2750 Honolulu, Hawaii 96840	1 copy by hand delivery

DATED: Honolulu, Hawaii, May 10, 2019.

Trans. Nos. 19-01, 19-02, and 19-03