





HELCO's need for rate relief and adequately protects the interest of ratepayers.

For the purposes of this Interim Decision and Order, the commission accepts the Consumer Advocate's recommended rate of return on common equity ("ROE") of 9.5%, and rate of return on average rate base ("ROR") of 7.8%. In doing so, the commission finds that HELCO has not demonstrated probable entitlement for its requested ROE of 9.75%, and the resulting ROR of 7.94% and interim increase in revenues of \$11,142,000 at current effective rates.

The commission's determination of a 9.5% ROE is based on the commission's consideration of the evidence in the docket record, the relevant financial conditions and regulatory mechanisms, and the totality of circumstances for HELCO.

The commission will allow the Parties to submit, as requested, additional briefs with respect to the ROE issue, and also any of the deferred matters identified in section II.B, so that it may be addressed in the Final Decision and Order, without the need for an evidentiary hearing.

Within ten business days of the date of this Interim Decision and Order, the Parties are instructed to submit their agreed-upon deadlines for the submission of simultaneous opening briefs (twenty-five pages) and reply briefs (ten pages).



I.

BACKGROUND

HELCO is the provider of electric utility service for the island of Hawaii. On June 17, 2015, HELCO filed a notice of intent to file an application for a general rate increase "by December 30, 2016" and to "use a calendar year 2016 test period" contingent on the approval of HELCO's Motion to Extend Date to File Rate Case and for Approval of Test Period Waiver.<sup>1</sup>

On November 25, 2015, the commission "approve[d] HELCO's request to deviate from the triennial rate case filing requirement and file its rate case by December 30, 2016, instead of by the end of 2015[,]"<sup>2</sup> and granted a waiver for HELCO to use a calendar year 2016 test period, instead of a forward test year.<sup>3</sup>

The commission stated that the "filing delay will provide HELCO with the opportunity to use the additional time to ensure that its future revenue requirements reflect HELCO's concerted efforts to operate as efficiently and cost-effectively as possible, with a focus on maximizing benefits to its customers

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<sup>1</sup>June 17, 2015 Notice of Intent at 1.

<sup>2</sup>Order No. 33342 "GRANTING HAWAII ELECTRIC LIGHT COMPANY, INC.'S MOTION TO EXTEND DATE TO FILE RATE CASE AND FOR APPROVAL OF TEST PERIOD WAIVER" and "DISSENT OF RANDALL Y. IWASE, COMMISSION CHAIR[,] " filed on November 19, 2015 ("Order No. 33342"), at 8.

<sup>3</sup>Order No. 33342 at 13.

while adapting to evolving electric systems and an increased reliance on renewable energy[,]” and that the commission “fully expects HELCO to utilize the time afforded by the rate case filing delay to aggressively pursue its corporate transformation initiatives and implement cost reduction measures that would then be reflected in its 2016 test period revenue requirements.”<sup>4</sup>

The following conditions were imposed:

- a. HELCO shall remove all HEI non-incentive executive compensation that is currently included in HELCO’s base rates, consistent with the regulatory treatment in [Hawaiian Electric Company, Inc.’s (“HECO”) and Maui Electric Company, Limited’s (“MECO”)] last rate cases;
- b. HELCO shall demonstrate that it utilized the rate case filing extension period to substantially reduce its cost structure and base revenue requirements;
- c. HELCO shall propose for the commission’s consideration a set of economic incentive and cost recovery mechanisms, as appropriate, consistent with the provisions of Act 37 of 2013 Hawaii Session Laws in order to further encourage reductions in its electric rates and accelerate its clean energy transformation; and
- d. HELCO shall propose for commission consideration potential modifications to its Energy Cost Adjustment Clause mechanism in order to provide appropriate economic incentives to accelerate reductions in fuel and purchased power expenses.<sup>5</sup>

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<sup>4</sup>Order No. 33342 at 9-10.

<sup>5</sup>Order No. 33342 at 14 (footnotes omitted).

A.

HELCO Application

On September 19, 2016, HELCO filed its Application for Approval of Rate Increases and Revised Rate Schedule and Rules.<sup>6</sup> HELCO maintains that it "filed this request for a general rate increase because rate relief will be required due to higher costs of operating and maintaining [HELCO's] existing utility infrastructure, costs of transforming [HELCO's] business and supporting achievement of the State's clean energy objectives, costs of adding the new facilities necessary to meet [HELCO's] obligation to provide secure and reliable service to customers, costs to provide expanded and diversified customer energy options and to improve customer service, and the need to attract and retain the necessary work force."<sup>7</sup>

HELCO presented its revenue requirement for the alternate scenarios whereby the Hamakua Energy Partners, L.P. ("Hamakua Energy") power facility ("Hamakua Facility") is "(a) still owned and operated by [Hamakua Energy] as an independent power producer ('IPP') facility, and (b) the [Hamakua Facility] is

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<sup>6</sup>Application of Hawaii Electric Light Company, Inc., Verification, and Certificate of Service, filed on September 19, 2016 ("Application").

<sup>7</sup>Application at 27-28.



alternatively owned and operated by [HELCO], as proposed in its pending" application in Docket No. 2016-0033.<sup>8</sup>

HELCO states that in any event, its "total revenue increase will not exceed the \$54,493,000 [(21.1%)] over revenues at present rates[,] . . . but the rates and charges to be finally approved by the Commission after its investigation may be higher or lower than the proposed rates and charges for the various schedules of service."<sup>9</sup>

"For the case in which [Hamakua Energy] continues to own and operate the [Hamakua Facility,]" HELCO seeks approval of a "revenue requirement of \$314,791,000 for a normalized 2016 test year[,]" which is "based on fuel oil prices in 2016 and an 8.44% rate of return (which incorporates a return on common equity . . . of 10.60%) on [HELCO's] average rate base."<sup>10</sup>

"[T]o achieve a revenue requirement of \$314,791,000[,]" HELCO states that "the increase would be \$39,054,000 (14.2%) over revenues at present rates" "[i]f the effects of the decline in sales (measured by the estimated [Revenue Balancing Account ('RBA')] revenues for the 2016 test year) and the

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<sup>8</sup>Application at 4.

<sup>9</sup>Application at 26.

<sup>10</sup>Application at 4.

[Revenue Adjustment Mechanism ('RAM')] revenues are included in the revenue increase[.]”<sup>11</sup>

However, if HELCO “has adjusted out the effects of the RBA and the RAM in its calculation of the revenue increase for the 2016 test year[,]” then “[b]ased on a revenue requirement of \$314,791,000 for a normalized 2016 test year, [HELCO’s] proposed increase is \$19,291,000 (6.5%) over revenues at current effective rates.”<sup>12</sup> “This increase would represent the proposed recovery of cost increases for the test year that customers are not already paying for and exclude revenue increases that result from a reduction in electric sales but not cost increases.”<sup>13</sup>

HELCO proposed the “implementation of performance based regulation . . . mechanisms to measure and link certain revenues to its performance in areas of customer service, reliability and communication relating to the rooftop solar interconnection

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<sup>11</sup>Application at 6 (emphasis added). HELCO defines “Revenues at present rates” as “revenues over current effective rates less RAM and RBA revenues for the 2016 test year.” Id. at 6 n.8. HELCO states that “[r]evenues at current effective rates are the sum of: a) base revenues estimated from rates approved in [HELCO’s] 2010 test year rate case; b) revenues from the [Energy Cost Adjustment Clause]; c) revenues from the Purchased Power Adjustment Clause ('PPAC'); d) revenues from the RAM Revenue Adjustment; e) revenues from the RBA Provision; and f) other operating revenues.” Id. at 6 n.7.

<sup>12</sup>Application at 6 (emphasis added).

<sup>13</sup>Application at 6.



process."<sup>14</sup> HELCO requested "approval of [HELCO's] proposed Performance Incentive Mechanisms ('PIMs')"<sup>15</sup> that allegedly "provide financial rewards or penalties for utility performance according to specific metrics[.]"<sup>16</sup>

HELCO also proposed certain modifications to its Energy Cost Adjustment Clause ("ECAC"), which included widening the target heat rates deadbands, equally sharing between HELCO and its customers higher or lower realized fuel costs based on the amount that actual heat rates fall outside the target heat rate deadbands, and adding a trigger for the redetermination of target heat rates.<sup>17</sup>

B.

Public Hearings

The commission invited the submission of written comments from the general public, and convened public hearings on December 13-14, 2016, in Hilo and Kona, to receive in-person testimony as to HELCO's Application, pursuant to HRS §§ 269-12 and 269-16. In general, the public testimony was opposed to HELCO's proposed rate increase.

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<sup>14</sup>Application at 3.

<sup>15</sup>Application at 15.

<sup>16</sup>Application at 16.

<sup>17</sup>Application at 31.

C.

The Consumer Advocate and the County of Hawaii

The Consumer Advocate filed its direct testimonies and exhibits on April 28, 2017. In comparison to HELCO's proposed increase of \$19,291,000 over revenues at current effective rates, the Consumer Advocate noted a \$2.6 million revenue deficiency under its recommended revenue requirement.<sup>18</sup>

The County of Hawaii was admitted as a participant, and filed its direct testimonies and exhibits on May 25, 2017.

D.

Stipulated Settlement

On July 11, 2017, HELCO and the Consumer Advocate jointly filed a Stipulated Settlement Letter ("Stipulated Settlement"), which states that the Parties "have agreed on all of the issues in this proceeding, except for the narrowed rate of return on common equity ('ROE') issue of whether the ROE should be reduced from 9.75% (by up to 25 basis points) based solely on the impact of decoupling, considering current circumstances and relevant precedents" and the Parties "agree that this narrowed issue shall

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<sup>18</sup>Division of Consumer Advocacy's Direct Testimonies and Exhibits, filed on April 28, 2017, T-1 at 10.

be addressed through the submission of opening and closing briefs, without the need for an evidentiary hearing on the ROE issue."<sup>19</sup>

In addition, the Parties "agree that the rate changes specifically set forth in this Stipulated Settlement result in just and reasonable rates"<sup>20</sup> and "request the Commission to approve this settlement agreement in total for the purposes of determining the interim and final revenue increases, revenue requirements and rate design for this proceeding."<sup>21</sup>

The Parties estimated that "[f]or the ROE at 9.75% at implementation of interim increase, the 500 kWh residential monthly bill would increase \$5.62 to \$153.38," and "for the ROE at 9.50% at implementation interim increase, the 500 kWh residential monthly bill would increase \$5.02 to \$152.78[.]"<sup>22</sup>

On July 21, 2017, the Parties submitted individual statements of probable entitlement.<sup>23</sup> "The interim increases that

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<sup>19</sup>Stipulated Settlement at 1.

<sup>20</sup>Stipulated Settlement at 1.

<sup>21</sup>Stipulated Settlement, Exhibit 1 at 4. The Parties "agree that no costs for a [Hamakua Facility] utility ownership scenario should be considered in this rate case proceeding." Id. at 8. In addition, HELCO's proposed performance incentive mechanisms were either withdrawn or deemed moot. Id. at 12.

<sup>22</sup>HELCO and the Consumer Advocate Joint Response to PUC-CA-IR-101 / PUC-HELCO-IR-106, filed on July 14, 2017, at 4.

<sup>23</sup>Hawaii Electric Light Statement of Probable Entitlement, filed on July 21, 2017 ("HELCO Statement"); Consumer Advocate's



Hawaii Electric Light and the Consumer Advocate are proposing are based on calculations of probable entitlement that reflect the Stipulated Settlement in this proceeding" and the "amount of the interim rate increase over revenues at current effective rates to which Hawaii Electric Light is probably entitled under [HRS § 269-16(d)] would depend on the ROE used to derive the increase."<sup>24</sup>

HELCO's "position is that the ROE that should be used to calculate the interim increase is 9.75% and the Consumer Advocate's position is that the ROE that should be used to calculate the interim increase should be 9.50%."<sup>25</sup> The Parties "request the Commission to determine which ROE should be used to calculate the interim increase over revenues at current effective rates[,] "<sup>26</sup> and both present the following alterative scenarios:

- HELCO proposal: \$11,142,000 interim increase over revenues at current effective rates (based on 9.75% ROE, and a resulting 7.94% ROR).

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Statement of Probable Entitlement, filed on July 21, 2017 ("CA Statement").

<sup>24</sup>CA Statement at 2.

<sup>25</sup>HELCO Statement at 1.

<sup>26</sup>HELCO Statement at 2.

- Consumer Advocate proposal: \$9,940,000 interim increase over revenues at current effective rates (based on 9.50% ROE, and a resulting 7.80% ROR).<sup>27</sup>

On August 16, 2017, HELCO, on its own initiative, filed its proposed tariff sheets for probable entitlement purposes.

## II.

### DISCUSSION

With respect to a public utility's showing of probable entitlement to interim rate increases, and the review of a stipulated settlement agreement, the commission observes that the "general rule is that in requesting rate increases, the burden of proof is on the utility to go forward with the evidence and justify its requested rate increases."<sup>28</sup> "[A]greement between the parties in a rate case cannot bind the PUC, as the PUC has an independent obligation to set fair and just rates and arrive at its own conclusions."<sup>29</sup>

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<sup>27</sup>HELCO Statement at 2; CA Statement at 2. The Parties noted minor differences in their calculations, but agree that the commission "may use the results by ROE" "and related support to determine the interim revenue increase." HELCO Statement at 3.

<sup>28</sup>Application of Hawaii Elec. Light Co., Inc., 60 Haw. 625, 637, 594 P.2d 612, 621 (1979).

<sup>29</sup>Application of Hawaiian Elec. Co., Inc., 5 Haw. App. 445, 447, 698 P.2d 304, 307 (1985); Application of Hawaii Elec. Light Co., Inc., 67 Haw. 425, 429, 690 P.2d 274, 278 (1984) ("The PUC is not bound to accept the view of one of the parties in the case.").

HRS § 269-16(d) provides that the commission may, subject to refund if later deemed excessive, "render an interim decision allowing the increase in rates, fares and charges, if any, to which the commission, based on the evidentiary record before it, believes the public utility is probably entitled":

**Regulation of utility rates; ratemaking procedures.** (a) All rates, fares, charges, classifications, schedules, rules, and practices made, charged, or observed by any public utility or by two or more public utilities jointly shall be just and reasonable and shall be filed with the public utilities commission. . . .

(b) No rate, fare, charge, classification, schedule, rule, or practice, other than one established pursuant to an automatic rate adjustment clause previously approved by the commission, shall be established, abandoned, modified, or departed from by any public utility, except after thirty days' notice to the commission as prescribed in section 269-12(b), and prior approval by the commission for any increases in rates, fares, or charges. . . . A contested case hearing shall be held in connection with any increase in rates, and the hearing shall be preceded by a public hearing as prescribed in section 269-12(c), at which the consumers or patrons of the public utility may present testimony to the commission concerning the increase. The commission, upon notice to the public utility, may . . . [d]o all things that are necessary and in the exercise of the commission's power and jurisdiction, all of which as so ordered, regulated, fixed, and changed are just and reasonable, and provide a fair return on the property of the utility used and useful for public utility purposes.

. . . .



(d) The commission shall make every effort to complete its deliberations and issue its decision as expeditiously as possible and before nine months from the date the public utility filed its completed application; provided that in carrying out this mandate, the commission shall require all parties to a proceeding to comply strictly with procedural time schedules that it establishes

. . . .

Notwithstanding subsection (c), if the commission has not issued its final decision on a public utility's rate application within the nine-month period stated in this section, the commission, within one month after the expiration of the nine-month period, shall render an interim decision allowing the increase in rates, fares and charges, if any, to which the commission, based on the evidentiary record before it, believes the public utility is probably entitled. The commission may postpone its interim rate decision for thirty days if the commission considers the evidentiary hearings incomplete. In the event interim rates are made effective, the commission shall require by order the public utility to return, in the form of an adjustment to rates, fares, or charges to be billed in the future, any amounts with interest, at a rate equal to the rate of return on the public utility's rate base found to be reasonable by the commission, received under the interim rates that are in excess of the rates, fares, or charges finally determined to be just and reasonable by the commission. . . .

"[I]n deciding interim rate relief, the commission's scrutiny of both the record and the discourse during the evidentiary hearings is a search for showing of probable entitlement. This search is necessarily quick, unlike the careful deliberation the commission consistently accords issues in rendering final decisions. . . . [T]he commission must often

postpone determinations of reasonableness with respect to certain unresolved matters. Otherwise, the speed with which the public utility is given interim rate relief would be affected."<sup>30</sup>

A.

Probable Entitlement and Interim Rate Increase

For the purposes of this Interim Decision and Order, and subject to the adjustments and findings herein, the commission accepts the agreements memorialized by the Parties in their Stipulated Settlement and statements of probable entitlement.

The commission accepts the Consumer Advocate's recommended ROE of 9.5%, and the resulting ROR of 7.8%. Applying these figures, and upon review of the docket record, the commission finds and concludes that HELCO is probably entitled to an interim rate increase of approximately \$9,940,000, or 3.42% over revenues at current effective rates, based on a total revenue requirement of approximately \$300,658,000 for the 2016 Test Year.

Attached to this Interim Decision and Order are Exhibits A and B that provide the commission's estimate of operating revenues and expenses and the average rate base for the 2016 Test Year, which the commission accepts for interim

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<sup>30</sup>In re Maui Elec. Co., Ltd., Docket No. 2009-0163, INTERIM DECISION AND ORDER NO. 22050, filed on July 27, 2010, at 11-12 n.18.

purposes, and reflect the application of a 9.5% ROE and the Parties' various agreements and stipulated figures, including:

a. Electric Sales Revenue: Updated sales and customer count forecasts, figures based on HELCO's revised production simulation that included corrections and adjustments identified by the Consumer Advocate, and revised energy cost adjustment clause and purchased power adjustment clause revenues.

b. Other Revenues: Stipulated additional revenues due to late payment charges (late payment charge factor of 0.16542%), and proposed rule changes.

c. Fuel Expense: Updated figures based on HELCO's revised production simulation that included corrections and adjustments identified by the Consumer Advocate.

d. Purchased Power Expense: Stipulated figures based on HELCO's revised production simulation.

e. Production Expense: Various adjustments proposed by the Consumer Advocate to certain non-labor expense components, stipulated overhaul normalization calculations, production maintenance expenses, environmental services expenses, asset management optimization expenses, planning and consulting costs, and geothermal RFP deferred costs.



f. Transmission and Distribution Expenses: Stipulated figures for vegetation management outside services costs, storm response costs, and the removal of joint pole litigation costs.

g. Customer Accounts Expense and Allowance for Uncollectible Accounts: Adjustments to certain expenses proposed by the Consumer Advocate.

h. Customer Service Expense: Stipulated adjustment as proposed by the Consumer Advocate.

i. Administrative and General: Stipulated adjustments to figures for pension and other post-employment benefit costs, reduced expenses for telecom planning services, reduced rate case expenses, exclusion of fee for early termination of group health plan agreement, and revised enterprise resource planning/enterprise asset management project expenses.

j. Depreciation and Amortization Expense: The calculation of depreciation and amortization expense based on existing commission-approved depreciation rates.

k. Average Rate Base: Adjustments to reflect updated 2016 year-end balances, revised pension and other post-employment benefit figures, deferred system development and other costs, production materials inventory and fuel inventory, and the calculation of working cash and accumulated deferred income taxes.

If revised schedules may be necessary to reflect the impact of the commission's findings or adjustments, HELCO is instructed to file such revised schedules, and any accompanying explanations, for review by the commission.

The commission's findings and adoption of the various amounts and results of operations is only for this Interim Decision and Order, and does not commit the commission to accept any of these amounts in its final decision, which will reflect a detailed review and analysis of all workpapers, schedules, and other materials produced by the Parties, including but not limited to, any additional information requests issued by the commission.

1.

Rate of Return on Common Equity

In its direct testimony, HELCO sought commission approval of a 10.6% ROE, which would result in an 8.44% ROR when applied to its then-proposed capital structure.<sup>31</sup>

The Consumer Advocate asserted that "decoupling the Company's regulated revenues from its kWh sales calls for a minimum reduction in the allowed return on equity ('ROE') of

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<sup>31</sup>Stipulated Settlement, Exhibit 1 at 83-84.

25 basis points."<sup>32</sup> The Consumer Advocate recommended approval of an 8.75% ROE -- the mid-point of a range of estimated cost of equity capital for similar-risk electric utility companies of 8.50% to 9.0% -- resulting in a 7.29% ROR when applied to its then-proposed capital structure.<sup>33</sup>

In response, HELCO maintained that a 10.6% ROE is reasonable, and when applied to its rebuttal capital structure, would result in a 8.42% ROR.<sup>34</sup>

In the Stipulated Settlement, the Parties state that they "have agreed on all of the issues in this proceeding, except for the narrowed rate of return on common equity ('ROE') issue of whether the ROE should be reduced from 9.75% (by up to 25 basis points) based solely on the impact of decoupling, considering current circumstances and relevant precedents" and the Parties "agree that this narrowed issue shall be addressed through the submission of opening and closing briefs, without the need for an evidentiary hearing on the ROE issue."<sup>35</sup>

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<sup>32</sup>Stipulated Settlement, Exhibit 1 at 86.

<sup>33</sup>Stipulated Settlement, Exhibit 1 at 85-87.

<sup>34</sup>Stipulated Settlement, Exhibit 1 at 87-88.

<sup>35</sup>Stipulated Settlement at 1.



The Parties state that HELCO "was not willing to stipulate to an ROE of less than 9.75% for purposes of determining the fair rate of return on rate base, assuming use of the adjusted capital structure, and debt and preferred stock cost rates, included in the Company's rebuttal testimony[,] and that the Consumer Advocate "was not willing to stipulate to an ROE of more than 9.50% (9.75% less 25 basis points for the impact of decoupling on the ROE) for purposes of determining the fair rate of return on rate base, assuming use of the adjusted capital structure, and debt and preferred stock cost rates, included in the Company's rebuttal testimony."<sup>36</sup>

As previously stated, the difference in the proposed interim revenue increase in the Parties' individual statements of probable entitlement turn on whether the commission accepts, for interim purposes, either HELCO's recommended 9.75% ROE or the Consumer Advocate's recommended 9.5% ROE:

- HELCO proposal: \$11,142,000 interim increase over revenues at current effective rates (based on 9.75% ROE, and a resulting 7.94% ROR).
- Consumer Advocate proposal: \$9,940,000 interim increase over revenues at current effective rates (based on 9.50% ROE, and a resulting 7.80% ROR).

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<sup>36</sup>Stipulated Settlement, Exhibit 1 at 88.

HELCO argues, in part, that "the end result of setting the ROE at a level less than 9.75% would not be reasonable" and the Consumer Advocate "has not supported any reduction in the ROE based on decoupling" and "[o]bjective measures of relative risk support the conclusion that the Hawaiian Electric Companies have greater risks, not lower risks, than other vertically integrated electric utility companies."<sup>37</sup>

The Consumer Advocate contends that "authorizing an interim based on 9.5% for the ROE is not only reasonable based on the record before the Commission, it is also administratively efficient and in the consumers' interest" and "the Commission should find that the Company is probably entitled to recover the revenue requirements that relies upon a ROE of 9.50%[,] "which should reflect a downward adjustment to recognize the impact of the decoupling adjustment on the Company's risk."<sup>38</sup>

For the purposes of interim rate relief, the commission accepts the Consumer Advocate's recommended ROE of 9.50%, the remaining components of the Parties' stipulated capital structure,<sup>39</sup> and the resulting ROR of 7.80%.

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<sup>37</sup>HELCO Statement at 4.

<sup>38</sup>CA Statement at 4.

<sup>39</sup>The Consumer Advocate otherwise accepted HELCO's adjusted capital structure, and debt and preferred stock cost rates of: 40.13% long-term debt (weighted cost of 2.17%), 1.86% hybrid

In doing so, the commission finds that HELCO has not demonstrated probable entitlement for its requested ROE of 9.75%, and the resulting ROR of 7.94% and the interim increase in revenues of \$11,142,000 at current effective rates.

The commission's determination of a 9.5% ROE is based on the commission's consideration of the evidence in the docket record, the relevant financial conditions and regulatory mechanisms, and the totality of circumstances for HELCO.

The commission observes that a 9.5% ROE is also consistent with the most recent adjudicated rate case for the Hawaiian Electric Companies (i.e., HELCO, HECO, and MECO).

On May 31, 2013, in Docket No. 2011-0092, the commission reduced MECO's and the Consumer Advocate's stipulated 10.0% ROE by 50 basis points and stated that "a 9.50% ROE would have been acceptable" "to appropriately reflect updated economic and financial market conditions of the 2012 Test Year."<sup>40</sup>

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securities (weighted cost of 0.13%), 1.31% preferred stock (weighted cost of 0.11%), and 56.69% common equity. See Stipulated Settlement, Exhibit 1 at 88.

<sup>40</sup>In re Maui Elec. Co., Ltd., Docket No. 2011-0092, DECISION AND ORDER NO. 31288, filed on May 31, 2013 ("Order No. 31288"), at 107. The commission ultimately adopted a 9.0 ROE, representing an additional downward adjustment of 50 basis points, "in light of apparent system inefficiencies which negatively impact MECO's customers." Id.



In support, the commission noted the Consumer Advocate's testimony that "MECO has lower financial risk than comparable average companies, due to MECO's higher than average common equity ratio (i.e., MECO has a common equity ratio 56.86%, while the electric industry average is 46.40% and the industry median is 45.80%)[,]" and that its ROE recommendation "reflects the lower risk MECO faces as a result of MECO's implementation of the decoupling and other regulatory mechanisms."<sup>41</sup>

The commission finds that the pertinent considerations in Docket No. 2011-0092 are also relevant for HELCO and support the determination of a 9.50% ROE for this interim decision.<sup>42</sup>

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<sup>41</sup>Order No. 31288 at 111. The commission found that MECO's authorized "ROE of 9.00% (resulting in an overall rate of return [of] 7.34%) is within the range of reasonableness[,]" "would not negatively impact MECO's financial integrity[,]" and "should be sufficient to continue to encourage the appropriate level of investment in MECO and provide assurance to the financial community of MECO's continued financial integrity, while protecting the interest of MECO's customers in paying no more than what is just and reasonable for service." Id. at 110, 112.

<sup>42</sup>HELCO, 60 Haw. at 635, 594 P.2d at 620 ("In some manner, every utility is unique and individual. No utility has a risk corresponding exactly to that of another. But comparisons between utilities provide an important method to arrive at a fair return on common equity. Therefore, imperfect but reasonable comparisons are permissible."). See also In re Kansas City Power & Light Co., Docket No. 15-KCPW-116-RTS, 324 P.U.R. 4th 173, 183-84 (Sept. 10, 2015) (concluding that a 9.3% ROE, and overall rate of return of 7.4383%, "strikes the proper balance of allowing [utility] to access capital markets while acknowledging the economic impact on ratepayers[,]" and stating that the utility's "proposed 10.3% ROE represents an increase of 80 basis points from its currently approved ROE of 9.5%" and "runs counter to the trends

In addition, the commission observes that even if HELCO's proposed 9.75% ROE was accepted, the commission may nonetheless be inclined to make other "pragmatic adjustments" so that the resulting ROR and interim rate increase are reasonable.<sup>43</sup>

Although the commission does not, at this time, make additional downward adjustments to the 9.50% ROE, the commission observes that there is room for improvement in HELCO's response to Order No. 33342, which granted a one-year extension to file this rate case, and directed HELCO "to substantially reduce its cost structure and base revenue requirements[,] " to propose "a set of economic incentive and cost recovery mechanisms . . . to further encourage reductions in its electric rates and accelerate its clean energy transformation[,] " and to propose "modifications to its Energy Cost Adjustment Clause mechanism in order to provide appropriate economic incentives to accelerate reductions in fuel and purchased power expenses."<sup>44</sup>

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in Kansas and nationwide towards lower ROEs in recognition of historically lower costs of capital").

<sup>43</sup>HELCO, 60 Haw. at 636-37, 594 P.2d at 620-21 (stating that "the ratemaking function involves the making of 'pragmatic' adjustments and that there is no single correct rate of return but that there is a 'zone of reasonableness' within which the commission may exercise its judgment. . . . Under the statutory standard of 'just and reasonable' it is the result reached and not the method employed which is controlling.").

<sup>44</sup>Order No. 33342 at 14 (emphases added).



The commission observes that in Docket No. 2014-0183, the commission recently accepted the Hawaiian Electric Companies' Power Supply Improvement Plans, and subject to various conditions and guidance, "direct[ed] the Companies to focus their efforts on implementing these plans."<sup>45</sup>

In this regard, the commission will closely monitor HELCO's efforts to, among other things, reduce costs to ratepayers and achieve the State's energy goals, to timely and collaboratively secure additional cost-effective renewable resources, to "fully consider energy storage systems in proposing any new generation projects[,] implement new community-based renewable energy and distributed energy resource programs, including integrated energy districts for the island of Hawaii, and to use "energy efficiency and cost effective [demand response] resources to resolve operating needs, meet system reserve requirements, defer the need for future capacity additions, provide ancillary services and assist with the integration of additional renewable energy resources, and promote the reliable and economic operation of the electric grid."<sup>46</sup>

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<sup>45</sup>In re Pub. Utils. Comm'n, Docket No. 2014-0183, DECISION AND ORDER No. 34696, filed on July 14, 2017 ("Order No. 34696"), at 4.

<sup>46</sup>Order No. 34696 at 28-30. The commission stated that the "impacts of increasing customer rates and the prospect of uneconomic customer exit can be reasonably anticipated and could be forestalled or exacerbated by the Companies' investment,



HELCO's performance and response to the foregoing will determine whether the commission may, in this and future rate cases, consider appropriate adjustments to the 9.50% ROE.

The commission will allow the Parties to submit, as requested, additional briefs with respect to the ROE issue, and also any of the deferred matters identified in section II.B, so that it may be addressed in the Final Decision and Order, without the need for an evidentiary hearing.

Within ten business days of the date of this Interim Decision and Order, the Parties are instructed to submit their agreed-upon deadlines for the submission of simultaneous opening briefs (twenty-five pages) and reply briefs (ten pages).

2.

#### Interim Rate Design

The Parties describe their proposed interim rate design as follows:

Hawai'i Electric Light proposes to implement an interim rate increase with an application of percentage surcharges on base revenues by rate schedule. As proposed above, Hawai'i Electric Light will calculate any interim increase award as a percentage increase on revenues at current effective rates. The same increase percentage will be applied to each rate schedule's revenues at current effective rates to determine the amount of the allocated interim revenue increase for each

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procurement, and operational decisions" and "the risks associated with such decisions rest with the Companies." Id. at 35.

rate schedule. In order that electric rates are designed to recover timely the full amount of the approved interim revenue requirement, the estimate of RBA and RAM revenues for each rate class must be added to the allocated interim increase to determine a total effective interim increase for each rate class. The RBA revenues estimated for the 2016 test year are not included in rates collected by the current RBA rate adjustment, and therefore should be included in the total effective interim increase for each rate class. In addition, the amount of the estimated RAM revenues for each rate class must be included in the total effective interim increase to recognize that the RAM revenue adjustment portion of the RBA rate adjustment terminates upon implementation of an interim rate increase for a test year that is the same as the revenue year that is the basis for the RAM revenue adjustment, per the RAM Provision. The total effective interim increase is divided by the estimate of 2016 test year base revenues for each rate schedule to determine the interim rate increase percentage to apply to each rate schedule's base revenues. . . .<sup>47</sup>

HELCO later clarified the proposed implementation of the

2017 RAM Revenue Adjustment:

New rates would be based on the interim rate increase plus the incremental 2017 RAM Revenue Adjustment. The Company will submit proposed tariff sheets that would reduce the existing Revenue Balancing Account ("RBA") Rate Adjustment to reflect the exclusion of the amount for the 2016 RAM Revenue Adjustment. The RAM component of the revised RBA Rate Adjustment will be based on the difference between the approved 2017 RAM Revenue Adjustment and the approved 2016 RAM Revenue Adjustment. The amount was calculated to be \$3,242,187. The tariffs for the interim revenue increase and the revised RBA Rate Adjustment should become effective on the same

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<sup>47</sup>Stipulated Settlement at 94 (footnote omitted).



date since they would implement the replacement of the 2016 RAM Revenue Adjustment with the interim revenue increase.

In accordance with the Final Decision and Order in Docket No. 2008-0274, target revenues for the purpose of determining the amount of revenues (or credits) that the Company would record into the RBA would be revised on the effective date of the tariffs to reflect the 2016 test year revenue requirement approved by the Commission in its interim decision and order plus the incremental 2017 RAM Revenue Adjustment.<sup>48</sup>

For the purposes of interim rate relief, the commission accepts the Parties' stipulated rate design, and the proposed implementation of the interim rate increase of approximately \$9,940,000 over revenues at current effective rates and the incremental 2017 RAM Revenue Adjustment of \$3,242,187.

B.

#### Deferred Matters

By this Interim Decision and Order, the commission takes no action, and defers ruling until the Final Decision and Order, as to proposed: (1) modifications to the ECAC; (2) rule changes;

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<sup>48</sup>July 31, 2017 letter from HELCO to the commission regarding "Implementation of Proposed Interim Revenue Increase" at 1-2. "The Revenue for RBA Balance included in the RBA Rate Adjustment, effective June 1, 2017, will continue to be reflected in the RBA Rate Adjustment after issuance of the interim and/or final decision and order in this rate case through the remainder of the June 1, 2017 - May 31, 2018 recovery period. The RAM component of the RBA Rate Adjustment would decrease from \$11,775,699 to \$3,242,187." Id. at 2 n.4.



(3) amendments to the pension/other post-employment benefits tracking mechanisms; (4) establishment of a power supply clearing account; (5) changes to the energy delivery clearing account; and (6) changes in various accounting methods (e.g., administrative expenses transferred, operation and maintenance expenses associated with capital projects). Any other matters not expressly approved are also deferred until the Final Decision and Order.

With respect to the separation and removal of fuel expenses and energy expenses from base rates with recovery of these expenses through an appropriately modified ECAC mechanism, the commission accepts the Parties' agreement that such modification may occur "subsequent to the establishment and implementation of final rates in this rate case" and enacted consistent with the commission's prior guidance and in a manner "to have no impact: 1) on revenue allocation and cost-of-service established for the rate classes; and 2) on effective rates per billed kW and per billed kWh and on individual customer bills."<sup>49</sup>

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<sup>49</sup>Stipulated Settlement, Exhibit 1 at 17.

C.

Refund

As provided by HRS § 269-16(d), HELCO is required to refund to its customers any excess collected under this Interim Decision and Order, with interest, if the final increase approved by the commission is less than the total interim increase.

III.

ORDERS

THE COMMISSION ORDERS:

1. Interim rate relief is approved and HELCO may increase its rates, on an interim basis, to such levels as will produce approximately \$9,940,000 in additional revenues for the test year (approximately 3.42% over current effective rates). The proposed implementation of the incremental 2017 RAM Revenue Adjustment of \$3,242,187 is approved.

2. HELCO shall promptly file its revised tariff sheets for the commission's review and approval, which implement the above-mentioned interim rate increase, including the incremental 2017 RAM Revenue Adjustment. HELCO's revised tariff sheets shall not take effect until affirmatively approved by the commission.

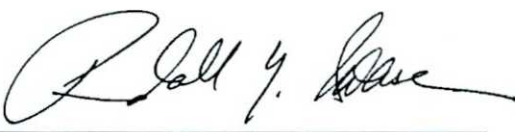
3. Upon the issuance of the Final Decision and Order in this proceeding, any amount collected pursuant to this interim

rate increase that is in excess of the increase determined by the Final Decision and Order to be just and reasonable shall be refunded to HELCO's ratepayers, together with interest, as provided in HRS § 269-16(d).

4. Within ten business days of the date of this Interim Decision and Order, the Parties are instructed to submit their agreed-upon deadlines for the submission of simultaneous opening briefs (twenty-five pages) and reply briefs (ten pages).

DONE at Honolulu, Hawaii                     AUG 21 2017                    .

PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

By   
Randall Y. Iwase, Chair

By   
Lorraine H. Akiba, Commissioner

APPROVED AS TO FORM:

  
David S. Taga  
Commission Counsel

By   
James P. Griffin, Commissioner

2015-0170.kmc



DOCKET NO. 2015-0170  
HAWAII ELECTRIC LIGHT COMPANY, INC.  
RESULTS OF OPERATIONS

2016  
(\$ THOUSANDS)

	CURRENT EFFECTIVE RATES	ADDITIONAL AMOUNT	INTERIM RATES
Electric Sales Revenue	289,830	9,940	299,770
Other Operating Revenue	888	0	888
<b>TOTAL OPERATING REVENUES</b>	<b>290,718</b>	<b>9,940</b>	<b>300,658</b>
Fuel	45,996		45,996
Purchased Power	72,438		72,438
Production	18,451		18,451
Transmission	4,367		4,367
Distribution	12,118		12,118
Customer Accounts	7,736		7,736
Allowance for Uncoll. Accounts	446		446
Customer Service	1,216		1,216
Administration & General	19,254		19,254
Operation and Maintenance	182,022	0	182,022
Depreciation & Amortization	37,773		37,773
Amortization of State ITC	(598)		(598)
Taxes Other Than Income Taxes	27,024	883	27,908
Interest on Customer Deposits	180		180
Income Taxes	12,245	3,524	15,769
<b>TOTAL OPERATING EXPENSES</b>	<b>258,647</b>	<b>4,407</b>	<b>263,054</b>
<b>OPERATING INCOME</b>	<b>32,071</b>	<b>5,533</b>	<b>37,604</b>
<b>AVERAGE RATE BASE</b>	<b>482,260</b>	<b>(124)</b>	<b>482,137</b>
<b>RATE OF RETURN ON AVERAGE RATE BASE</b>	<b>6.65%</b>		<b>7.80%</b>

DOCKET NO. 2015-0170  
HAWAII ELECTRIC LIGHT COMPANY, INC.  
ANALYSIS OF RATE INCREASE

2016  
(\$ THOUSANDS)

	<u>AMOUNT</u>	<u>% INCREASE</u>
RATE INCREASE:		
ELECTRIC REVENUES	9,940.0	
OTHER REVENUES	-	
TOTAL INCREASE	<u>9,940.0</u>	<u>3.42%</u>

DOCKET NO. 2015-0170  
HAWAII ELECTRIC LIGHT COMPANY, INC.  
COMPUTATION OF TAXES OTHER THAN INCOME TAX

2016  
(\$ THOUSANDS)

	RATE	CURRENT EFFECTIVE RATES	ADJUSTMENT AMOUNT	INTERIM RATES
Electric Sales Revenue		289,830	9,940	299,770
Other Operating Revenue		888	0	888
<b>OPERATING REVENUES</b>		<b>290,718</b>	<b>9,940</b>	<b>300,658</b>
Public Service Tax	0.05885	17,083	585	17,667
PUC Fees	0.005	1,451	50	1,501
Franchise Tax	0.025	7,235	249	7,483
Payroll Tax		1,256		1,256
<b>TOTAL TAXES OTHER THAN INCOME TAX</b>		<b>27,024</b>	<b>883</b>	<b>27,908</b>



DOCKET NO. 2015-0170  
HAWAII ELECTRIC LIGHT COMPANY, INC.  
COMPUTATION OF INCOME TAX EXPENSE

2016  
(\$ THOUSANDS)

	CURRENT EFFECTIVE RATES	ADJUSTMENT AMOUNT	INTERIM RATES
Operating Revenues	290,718	9,940	300,658
Operating Expenses:			
Fuel Oil and Purchased Power	118,434		118,434
Other Operation & Maintenance Expense	63,588	0	63,588
Depreciation	37,773	0	37,773
Amortization of State ITC	(598)	0	(598)
Taxes Other than Income	27,024	883	27,908
Interest on Customer Deposits	180	0	180
Total Operating Expenses	246,401	883	247,285
Operating Income Before Income Taxes	44,317	9,057	53,373
Tax Adjustments:			
Interest Expense	(11,093)		(11,093)
Meals and Entertainment	10		10
	(11,083)	0	(11,083)
Taxable Income at Ordinary Rates	33,234	9,057	42,290
Income Tax Expense at Ordinary Rates	12,931	3,524	16,455
Tax Benefit of Domestic Production Activities Deduction	658		658
R&D Credit	28		28
TOTAL INCOME TAX EXPENSE	12,245	3,524	15,769

DOCKET NO. 2015-0170  
HAWAII ELECTRIC LIGHT COMPANY, INC.  
AVERAGE RATE BASE

2016  
(\$ THOUSANDS)

	<u>BEGINNING BALANCE</u>	<u>END OF YEAR BALANCE</u>	<u>AVERAGE BALANCE</u>
Investments in Assets			
Net Cost of Plant Service	649,484	667,682	658,583
Property Held for Future Use	987	755	871
Fuel Inventory	6,021	6,021	6,021
Materials & Supplies Inventories	7,082	7,082	7,082
Regulatory Asset - ASC 740	11,463	11,477	11,470
Pension Regulatory Asset	22,912	26,421	24,667
Contribution in Excess of NPPC	3,047	3,047	3,047
Pension Asset	0	0	0
Deferred System Dev. & Other Costs	4,848	4,169	4,509
	<u>705,844</u>	<u>726,654</u>	<u>716,249</u>
Funds from Non-Investors			
Unamortized CIAC	95,298	97,211	96,255
Customer Advances	11,172	11,259	11,216
Customer Deposits	3,224	2,788	3,006
Accumulated Def. Income Taxes	102,336	110,970	106,653
Unamort State ITC (Gross)	15,184	15,787	15,486
Pension Reg Liability (Prepaid)	496	1,370	933
OPEB Reg Liability	1,548	2,080	1,814
Rounding			
Total Deductions	<u>229,258</u>	<u>241,465</u>	<u>235,362</u>
Difference			480,887
Working Cash at Current Effective Rates			1,373
Rate Base at Current Effective Rates			<u>482,260</u>
Change in Rate Base - Working Cash			<u>(124)</u>
Rate Base at Interim Rates			<u>482,137</u>

DOCKET. NO. 2015-0170  
HAWAII ELECTRIC LIGHT COMPANY, INC.  
WORKING CASH ITEMS

2016  
(\$ THOUSANDS)

	A	B	C	D
	COLLECTION LAG (DAYS)	PAYMENT LAG (DAYS)	NET COLLECTION LAG (DAYS) (A - B)	ANNUAL AMOUNT
<b>ITEMS REQUIRED WORKING CASH</b>				
Fuel Oil Purchases	37.8	15.6	22.2	45,996
O & M Labor	37.8	10.7	27.1	18,106
Purchased Power	37.8	38.2	(0.4)	72,438
O & M Non-Labor	37.8	31.5	6.3	42,179
Revenue Taxes	37.8	86.2	(48.4)	25,768
Income Taxes - Current Effective Rates	37.8	39.0	(1.2)	138
Income Taxes - Interim Rates	37.8	39.0	(1.2)	2,158
	E	F	G	H
	AVERAGE DAILY AMOUNT (D/365)	WORKING CASH (CURR EFF RATES) (C * E)	AVERAGE DAILY AMOUNT (PROPOSED)	WORKING CASH (INTERIM RATES) (C * G)
<b>ITEMS REQUIRING WORKING CASH</b>				
Fuel Oil Purchases	126	2,798	126	2,798
O & M Labor	50	1,344	50	1,344
Purchased Power	198	(79)	198	(79)
<b>ITEMS THAT PROVIDE WORKING CASH</b>				
O & M Non-Labor	116	728	116	728
Revenue Taxes	71	(3,417)	73	(3,534)
Income Taxes - Current Effective Rates	0	(0)		
Income Taxes - Interim Rates	6		6	(7)
<b>Total</b>		<b>1,373</b>		<b>1,249</b>
<b>Change in Working Cash</b>				<b>(124)</b>



CERTIFICATE OF SERVICE

The foregoing order was served on the date of filing by mail, postage prepaid, and properly addressed to the following parties:

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