BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of	)	
	)	
HAWAIIAN ELECTRIC COMPANY, INC.	)	DOCKET NO. 2016-0328
	)	
For Approval of General Rate Case and Revised Rate Schedules/Rules.	)	
	)	

INTERIM DECISION AND ORDER NO. 35100

FILED

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PUBLIC UTILITIES COMMISSION

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INTERIM DECISION AND ORDER

By this Interim Decision and Order,[1] the commission approves in part and denies in part the request by HAWAIIAN ELECTRIC COMPANY, INC. ("HECO") to increase its rates on an interim basis, as set forth in HECO's Statement of Probable Entitlement, filed November 17, 2017.[2] In doing so, the commission adopts many of the matters agreed upon by HECO and the Consumer Advocate in the "Parties' Stipulated Settlement Letter," filed

[1]The Parties to this docket are HECO and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"), an *ex officio* party to this proceeding, pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62(a). In addition, the commission has granted Participant status to the DEPARTMENT OF DEFENSE ("DOD"), HONOLULU BOARD OF WATER SUPPLY ("BWS"), LIFE OF THE LAND ("LOL"), ENERGY FREEDOM COALITION OF AMERICA, LLC ("EFCA"), HAWAII PV COALITION ("HPVC"), and BLUE PLANET FOUNDATION ("Blue Planet").

[2]Letter From: J. Viola To: Commission Re: Docket No. 2016-0328 - Hawaiian Electric 2017 Test Year Rate Case; Hawaiian Electric's Statement of Probable Entitlement, filed November 17, 2017 ("HECO Statement of Probable Entitlement").

November 15, 2017 ("Settlement"), and HECO's Statement of Probable Entitlement, with some additional adjustments by the commission, as discussed herein.

As a result, while the commission adopts many of the stipulations set forth in the Parties' Settlement, it is also making the following adjustments to the Parties' Settlement and Statements of Probable Entitlement:

(A) HECO shall make a downward adjustment to its 2017 Test Year Contributions in Excess amortization amount to reflect amortization of the balance beginning on July 22, 2011.[3] Adjustment (A) holds HECO accountable for its oversight in failing to begin amortizing its Excess Pension Contribution balance in 2011. Allowing HECO to belatedly begin amortization at this time would negatively impact ratepayers by incorporating amortization amounts in the 2017 Test Year, thereby increasing rates;

(B) HECO shall make downward adjustments to its 2017 Test Year Pension and OPEB Tracking Regulatory Asset/Liability balances to give effect to its prior statement, in support of its 2014 "abbreviated" rate case filing, that it was not seeking an increase in base rates for the 2014 test year. Adjustment (B) approximates the amount of Pension and OPEB Tracking

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[3]This will also result in an adjustment to HECO's 2017 Test Year rate base.

Regulatory Asset/Liability balances that HECO proposed to forgo.[4] The commission determines that this adjustment is consistent with the language and spirit of HECO's earlier representations, and fairly and equitably balances the interests of the utility and ratepayers under the circumstances;[5],[6] and

(C) HECO shall make a downward adjustment of $5 million to its interim revenue increase, representing a "hold-back" of interim revenues pending further examination of the prudence of HECO's baseline plant additions. Adjustment (C) is in response to the commission's long-standing concerns regarding the increasing trend in HECO's capital expenditures. HECO must meet its burden to justify the prudence and reasonableness of its increasing baseline plant expenditures.

Accordingly, the commission instructs HECO to make certain adjustments, as described in further detail herein, and

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[4]This will also result in an adjustment to HECO's 2017 Test Year rate base.

[5]As discussed in greater detail, infra, to the extent these changes to HECO's Pension and OPEB Tracker balances affect other accounts, the commission is allowing HECO to create a regulatory asset to reflect these changes, as proposed by HECO. Furthermore, as discussed, infra, this adjustment will not affect HECO's ability to use its 2011 NPPC and NPBC base rate amounts to calculate its 2017 Test Year Pension and OPEB Tracking Regulatory Asset/Liability balances.

[6]Adjustments (A) and (B) do not affect the operation of HECO's pension and benefits plan (i.e., pension payments and the provision of benefits are not altered).

file revised schedules with the commission, together with written explanations and supporting exhibits explaining the amounts removed and any other corresponding adjustments made to the schedules resulting from the adjustments required by the commission in this Interim Decision and Order. The Consumer Advocate may file comments on HECO's revised schedules within five (5) days of the date of filing of the revised schedules and accompanying written explanations and supporting exhibits.[7]

In addition, the commission sets forth in this Interim Decision and Order certain issues that the commission intends to further examine, which are not fully developed in the present record. These include: HECO's rate of return on equity ("ROE"), HECO's unapproved on-cost accounting policy change, modifications to the Energy Cost Adjustment Clause ("ECAC"), and the prudence of various components of HECO's Target Revenue. Regarding these issues, additional information from the Parties is needed to inform and support the commission's Final Decision and Order.

Following receipt of the Consumer Advocate's comments on HECO's revised schedules, if any, the commission will review HECO's

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[7]Pursuant to the commission's procedural order governing this proceeding, the amount of interim rate increase, if any, to which HECO is entitled under HRS § 269-16(d) is outside the scope of the Participants' authorized involvement in this proceeding. See Procedural Order No. 34721, filed July 28, 2017, at 5-8.

revised sheets and, if warranted, will issue an order approving them. HECO's interim rate increase shall not take effect until affirmatively approved by the commission.

Per their Settlement, the Parties maintain that their stipulation on HECO's requested rate increase is conditioned on a commission order "adopting all material terms of this Stipulated Settlement," and that in the event the commission "makes any material adjustment to this Stipulated Settlement, either Party may withdraw from this stipulation, and such Party or Parties may pursue their respective positions on [HECO's] application in this docket without prejudice, and the Parties do not waive the right to an evidentiary hearing."[8]

Accordingly, within ten (10) days of the date of this Interim Decision and Order, HECO and the Consumer Advocate are instructed to submit a filing with the commission indicating whether they wish to withdraw from the Settlement and, if so: (1) the specific issue(s) that the requesting Party intends to address during the post-Interim Decision and Order phase of this proceeding; and (2) whether the requesting Party wishes to waive its right to an evidentiary hearing on this issue(s).[9]

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[8]Settlement at 1.

[9]This deadline is consistent with the deadline to move for reconsideration of a commission decision and order. <u>See</u> Haw. Admin. R. §§ 6-61-137 (ten-day deadline to file a motion

Depending on the responses from the Parties, the commission may modify the procedural schedule governing the remainder of this proceeding.

I.

BACKGROUND

HECO is the provider of electric utility service for the island of Oahu. On September 16, 2016, HECO filed a notice of intent to file an application for a general rate increase "on or before December 30, 2016" "based on a 2017 calendar year test period."[10]

On August 31, 2010, the commission, in its decoupling investigative proceeding, In re Public Utilities Comm'n, Docket No. 2008-0274, issued its Final Decision and Order, in which it adopted a Mandatory Triennial Rate Case Cycle for the Hawaiian Electric Companies.[11] Pursuant thereto, the Hawaiian Electric Companies were directed to file staggered "rate cases" every three

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for reconsideration); 6-61-21(e) (two days added to the prescribed period for service by mail); and 6-61-22 (computation of time).

[10]"Hawaiian Electric Company, Inc. Notice of Intent; Verification; and Certificate of Service," filed September 16, 2016, at 1-2.

[11]In re Public Utils. Comm'n, Docket No. 2008-0274, Final Decision and Order, filed August 31, 2010 (Commissioner Kondo, Leslie H., dissenting). The "Hawaiian Electric Companies" refers collectively to HECO, Hawaii Electric Light Company, Inc. ("HELCO"), and Maui Electric Company, Limited ("MECO").

years, commencing with HECO's 2011 test year rate case, followed by MECO's 2012 test year rate case, and HELCO's 2013 test year rate case.

A.

HECO's Application

On December 16, 2016, pursuant to the Mandatory Triennial Rate Case Cycle, HECO filed an application for approval for rate increases and revised rate schedules and rules in which HECO requested a general rate increase of approximately $106,383,000, or 6.9% over revenues at current effective rates.[12] HECO based this requested increase on an overall revenue requirement of $1,642,362,000 for a normalized 2017 test year ("2017 Test Year"), which incorporates an 8.28% rate of return on HECO's average rate base.[13]

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[12]"Hawaiian Electric Company, Inc. 2017 Test Year Application," filed December 16, 2017 ("Application"), Book 1 at 7. "Revenues at current effective rates" are the sum of: (1) base revenues; (2) revenues from HECO's authorized automatic adjustment clauses; (3) revenues from HECO's authorized decoupling mechanisms; and (4) other operating revenues. See id. at 1 n.2.

[13]Application at 5-6. In its Application, HECO presented two alternative revenue requirement proposals, one incorporating the costs associated with the Schofield Generating Station ("SGS") and one excluding the SGS costs. See id. at 5. Subsequently, in Docket No. 2017-0213, HECO filed an application seeking interim cost recovery for the SGS project through the commission's recently approved Major Projects Interim Recovery Guidelines ("MPIR Guidelines"). As a result, the commission issued an order in this proceeding excluding HECO's revenue requirement proposal

In addition to a general rate increase, HECO also proposes the following modifications and adjustments to its tariffs and schedules. Specifically, HECO proposed two alternative modifications to the Rate Adjustment Mechanism "(RAM") that would replace the current RAM cap[14] with a cap based on either: (1) the amount of baseline plant additions approved in the most recent HECO rate case, adjusted for inflation by the Gross Domestic Product Price Index; or (2) the average amount of baseline plant additions approved in the most recent HECO rate case and the two subsequent years before the next scheduled HECO rate case.

HECO also proposed several Performance Incentive Mechanisms ("PIMs"), which provide financial rewards or penalties for HECO's performance according to specific metrics.[15] Specifically, HECO proposed PIMs in the areas of: (1) service reliability and customer service; and (2) Distributed Energy

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that included the SGS project costs, finding that the issue of interim cost recovery for the SGS project would be addressed in Docket No. 2017-0213, pursuant to HECO's request to recover on the SGS Project costs, on an interim basis, under the MPIR Guidelines. See Order No. 34820, "Removing Hawaiian Electric Company, Inc.'s Request for a Step Revenue Adjustment for the Schofield Generating Station Project (i.e., Issue No. 3) from the Subject Proceeding," filed September 15, 2017 ("Order No. 34820").

[14]In 2015, the commission implemented a cap which limits the amount of revenue HECO can automatically recover through the RAM. See In re Public Util. Comm'n, Docket No. 2013-0141, Order No. 32735, "Modifying Decoupling Mechanisms and Establishing Briefing Schedule," filed March 31, 2015 ("Order No. 32735").

[15]Application at 17-18.

Resources ("DER") customer communications.[16] HECO also supports the continued evaluation of Performance-Based Regulation ("PBR") on a broader scale in a separate investigative docket.[17]

Finally, HECO proposed modifying the ECAC tariff to: (1) reflect the revised costs of fuel, Distributed Generation fuel, and purchased energy; (2) revise the target heat rate for Low Sulfur Fuel Oil ("LSFO") to reflect 2017 Test Year simulations; (3) eliminate target heat rates for diesel fuel and biodiesel fuel; (4) widen the heat rate deadband for LSFO; and (5) add a trigger for re-determining the LSFO target heat rate.[18]

B.

Public Hearing

On February 22, 2017, the commission held a public hearing on HECO's Application, pursuant to HRS §§ 269-12 and 269-16, at the Ala Wai Elementary School cafeteria, 503 Kamoku Street, Honolulu, Hawaii, 96826, at 6:00 p.m.[19] In

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[16]Application at 18-19.

[17]Application at 20.

[18]Application at 20; see also HECO Direct Testimonies, HECO T-30 at 31-43 of 56.

[19]See Notice of Public Hearing (Honolulu); Docket No. 2016-0328, filed January 27, 2017.

addition to HECO and the Consumer Advocate, testimony was provided by an individual and EFCA.[20]

C.

Orders Regarding The Completeness Of HECO's Application

On June 27, 2014, HECO submitted a filing, pursuant to the Mandatory Triennial Rate Case Cycle requirement, which it characterized as an "abbreviated" rate case filing ("HECO 2014 Filing").[21] Although HECO maintained that its 2014 Filing would support an increase in 2014 test year revenues of $56,212,000, HECO stated that "Hawaiian Electric is foregoing[22] the opportunity to seek an increase in base rates based on a 2014 test year in recognition that its customers are already in a challenging high bill environment."[23] HECO's 2014 Filing was

[20]See Public Hearing Sign-Up Sheet and Testimonies (Honolulu); Docket No. 2016-0328, filed February 22, 2017.

[21]In re Hawaiian Elec. Co., Inc., Docket No. 2013-0373, "Hawaiian Electric Company, Inc. 2014 Test Year Rate Case, Filed June 27, 2014," Books 1 thru 5, filed June 27, 2014 ("HECO 2014 Filing").

[22]The commission reasonably assumes from the context of HECO's filing that it intended to use the word "forgo" (i.e., to give up the enjoyment or advantage of; to do without), and not "forego" (i.e., to go before; precede). See Merriam-Webster Dictionary, https://www.merriam-webster.com/.

[23]HECO 2014 Filing, Book 1 at 1.

assigned Docket No. 2013-0373. No Decision and Order was issued regarding HECO's 2014 Filing in Docket No. 2013-0373.

In Order No. 34260, filed December 23, 2016,[24] the commission found that HECO's 2014 Filing was not compliant with the commission's order establishing the Mandatory Triennial Rate Case Cycle, but decided to transfer and consolidate HECO's 2014 Filing with the instant proceeding (i.e., HECO's 2017 Test Year rate case), concluding that "it is neither fair nor reasonable for ratepayers to suffer negative impacts as a result of [HECO's] failure to file a compliant and timely rate case application as specifically and clearly required by the commission. Thus, as further discussed below, the commission is transferring and consolidating HECO's [2014] abbreviated rate case filing with Docket No. 2016-0328 in order to ensure that ratepayers receive the attendant benefits of HECO's [2014 Filing]."[25]

Concomitant to the commission's decision to transfer and consolidate HECO's 2014 Filing with the present proceeding, the commission stated that "the determination and disposition of any rates, accounts, adjustment mechanisms, and practices that would

[24]Order No. 34260, "Transferring and Consolidating Docket No. 2013-0373 with Docket No. 2016-0328, and Closing Docket No. 2013-0373," filed December 23, 2016 ("Order No. 34260").

[25]Order No. 34260 at 16.

have been subject to review in the context of a 2014 test year rate case proceeding [will be] subject to appropriate adjustment based on evidence and findings in the consolidated rate case proceeding, Docket No. 2016-0328."[26]

On January 4, 2017, HECO filed a motion for clarification and/or reconsideration of Order No. 34260.[27] In response, on March 14, 2017, the commission issued Order No. 34453, in which the commission clarified that it was not initiating an enforcement proceeding against HECO, but intended to ensure that HECO's ratepayers received the attendant benefits of HECO's decision to voluntarily forgo a general rate increase in base rates for its mandated 2014 test year.[28] The commission listed seven distinct areas that it intended to examine as part of the consolidated rate case proceeding, Docket No. 2016-0328,[29] and instructed HECO to supplement its Application with any revisions necessary to

[26]Order No. 34260 at 17.

[27]"Hawaiian Electric Company, Inc. Motion for Clarification and/or Partial Reconsideration of Order No. 34260; Memorandum in Support of Motion; Statement of Facts; Affidavit of Joseph P. Viola; and Certificate of Service," filed January 4, 2017.

[28]Order No. 34453, "Addressing Hawaiian Electric Company, Inc.'s Motion for Clarification and/or Partial Reconsideration of Order No. 34260," filed March 14, 2017 ("Order No. 34453"), at 1-2.

[29]See Order No. 34453 at 10-11 and 13-26.

allow the commission to conduct its examination of the identified areas.[30]

Thereafter, on April 12, 2017, HECO filed its supplemental materials pursuant to Order No. 34453.[31] However, for one particular item specified in Order No. 34453, revising HECO's pension and other post-employment benefits ("OPEB") asset schedules to reflect 2014 amounts, HECO maintained that it would need a hypothetical date from which to begin amortizing these amounts, because amortization usually begins as of the date of an interim decision and order, and no such decision and order was issued for HECO's 2014 Filing.[32] Accordingly, HECO requested a hypothetical effective date for its "2014 rates" to perform the revisions stated in Order No. 34453.[33]

As a result, on April 26, 2017, the commission issued Order No. 34512, which addressed HECO's pension and OPEB question and provided hypothetical effective dates of April 30, 2015, and May 1, 2015, for HECO to perform its pension and

[30]Order No. 34453 at 26-27.

[31]"Hawaiian Electric Company, Inc.'s Supplemental Filing Pursuant to Order No. 34453; Attachments 1-5F; and Certificate of Service," filed April 12, 2017 ("HECO April 12, 2017 Supplemental Filing").

[32]HECO Supplemental Filing, Attachment 1 at 38.

[33]HECO Supplemental Filing, Attachment 1 at 38-39.

OPEB re-calculations.[34] The commission instructed HECO to submit its revised pension and OPEB materials by May 12, 2017.[35]

On May 10, 2017, HECO filed a motion for enlargement of time to file its supplemental pension and OPEB material.[36] HECO stated that while it intended to file its updated pension and OPEB schedules to reflect amortization of the pension and OPEB tracking regulatory asset/liability balances based on 2014 information on May 12, 2017, as directed by Order No. 34512, such information should not be considered in isolation:

> In the process of preparing these schedules, [HECO] also recognized that the impact of the changes to the pension and OPEB regulatory asset and liability balances in 2015 through 2017 would include changes to the employee benefit transfer rates for those years. This, in turn would affect the transfers to capital and the plant addition amounts in each of those years. Changes to the plant addition amounts would also have other impacts as well, including changes to plant in service balances, depreciation expense and accumulated deferred income taxes. Hawaiian Electric respectfully submits that all of these impacts must be considered in reviewing the 2014 abbreviated rate case filing.[37]

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[34]Order No. 34512, "Addressing Various Matters Related to Order No. 34453," filed April 26, 2017 ("Order No. 34512").

[35]Order No. 34512 at 9.

[36]"Hawaiian Electric Company, Inc.'s Motion for Enlargement of Time; and Certificate of Service," filed May 10, 2017 ("HECO Motion for Enlargement of Time").

[37]HECO Motion for Enlargement of Time at 2-3.

Accordingly, HECO requested until May 31, 2017, to calculate the impacts to these various schedules.[38]

On May 12, 2017, HECO filed its supplemental pension and OPEB schedules which reflected the use of HECO's 2014 net periodic pension cost ("NPPC") and net periodic benefit cost ("NPBC") amounts, as described in Order No. 34512.[39] On May 18, 2017, the commission issued Order No. 34557 in which it granted HECO's Motion for Enlargement of Time and gave HECO until May 31, 2017, to fully comply with Order No. 34512.[40] On May 31, 2017, HECO filed its additional supplemental material.[41]

As a result, on June 28, 2017, the commission issued Order No. 34664, which, among other things: (1) certified HECO's supplemented Application as complete; and (2) granted Participant status to the DOD, BWS, LOL, EFCA, HPVC, and Blue Planet.[42] In

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[38]HECO Motion for Enlargement of Time at 2 and 3.

[39]Letter from I. Teruya to the commission, filed May 12, 2017 ("HECO May 12, 2017 Supplemental Filing").

[40]Order No. 34557, "Granting Hawaiian Electric Company, Inc.'s Motion for Enlargement of Time to Fully Comply with Order No. 34512," filed May 18, 2017 ("Order No. 34557"), at 1.

[41]Letter from D. Matsuura to the commission, "Submission of Additional Schedules Pursuant to Order No. 34512," filed May 31, 2017 ("HECO May 31, 2017 Supplemental Filing").

[42]Order No. 34664, "(1) Certifying Completeness of Application; (2) Addressing Motion to Intervene; and (3) Instructing Hawaiian Electric Company, Inc. and the Consumer Advocate to Submit a Proposed Procedural Order," filed June 28, 2017 ("Order No. 34664").

finding HECO's Application complete, the commission reiterated that HECO's Application, as filed on December 16, 2016, required supplementation as a result of the commission's Order No. 34260.[43] Accordingly, the commission certified HECO's Application complete as of the date of HECO's final supplement, i.e., May 31, 2017.[44]

D.

Parties' And Participants' Positions

On July 28, 2017, the commission issued Procedural Order No. 34721, which established, among other things, the Statement of Issues and Procedural Schedule governing this proceeding.[45] During

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[43]See Order No. 34664 at 11-16.

[44]Order No. 34664 at 21-22. Accordingly, this is the effective date of completed application from which the statutory timelines set forth in HRS § 269-16(d) began to run. See Haw. Rev. Stat. § 269-16(d) ("the nine-month period in this subsection shall begin only after a completed application has been filed with the commission and a copy served on the consumer advocate.").

[45]Notwithstanding the commission's finding in Order No. 34664 that HECO's Application was complete as of May 31, 2017, which would not statutorily require an Interim Decision and Order until approximately March 30, 2018, the commission, in its procedural schedule, tentatively scheduled the issuance date of its Interim Decision and Order for December 15, 2017. See Procedural Order No. 34721 at 10; see also Order No. 34720, "Denying Hawaiian Electric Company, Inc.'s Motion for Partial Reconsideration of Order No. 34664, filed July 28, 2017 ("Order No. 34721"), at 14-15 (denying HECO's Motion for Reconsideration of Order No. 34664, in part, by noting that HECO's arguments that it would be prejudiced by "regulatory lag" arising from a May 31, 2017, completed application date appeared non-existent, as the tentative December 15, 2017, Interim Decision and Order date was only one month after HECO's proposed November 15, 2017, Interim Decision

the allotted discovery period, the Parties and Participants exchanged voluminous information requests ("IRs"), and on September 22, 2017, the Consumer Advocate and the Participants filed their Direct Testimonies, Exhibits, and Workpapers.[46]

E.

The Parties' Settlement

Thereafter, HECO and the Consumer Advocate engaged in settlement discussions, and on November 15, 2017, the Parties jointly filed the Settlement, in which they stated that they have reached agreement on all but one issue: "whether the stipulated

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and Order date, which was based on a December 16, 2016, completed application date).

[46]See "Hawaii PV Coalition's Exhibit List; Direct Testimony; Docket No. 2016-0328," filed September 22, 2017 ("HPVC Direct Testimony"); "Life of the Land Testimony LOL-T-1; Affidavit of Henry Q. Curtis; Docket No. 2016-0328," filed September 22, 2017 ("LOL Direct Testimony"); "Blue Planet Foundation's Direct Testimony and Exhibit List; Direct Testimony of Ronald J. Binz; Exhibit 1; Docket No. 2016-0328," filed September 22, 2017 ("Blue Planet Direct Testimony"); "Energy Freedom Coalition of America, LLC's Direct Testimonies, Exhibits, and Workpapers; Docket No. 2016-0328," filed September 22, 2017 ("EFCA Direct Testimony"); "Testimony of Ralph C. Smith, CPA on Behalf of the Department of Defense; Docket No. 2016-0328" and "Direct Testimony and Exhibits of Maurice Brubaker on Behalf of Department of Defense; Docket No. 2016-0328," both filed September 22, 2017 (collectively, "DOD Direct Testimony"); and "Division of Consumer Advocacy's Direct Testimonies, Exhibits, and Workpapers; Book 1 of 2 and Book 2 of 2; Docket No. 2016-0328," filed September 22, 2017 ("CA Direct Testimony"). The BWS did not file any Direct Testimony or Exhibits.

rate of return on common equity ("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."[47] In addressing this remaining issue, the Parties requested that the commission "consider the information and arguments contained in the opening and closing briefs submitted in the Hawaii Electric Light 2016 test year rate case, Docket No. 2015-0170, without the need for an evidentiary hearing on the ROE issue or the submission of briefs on the ROE issue in this docket."[48]

Subsequently, on November 17, 2017, the Parties submitted their respective Statements of Probable Entitlement, reflecting the stipulated terms of the Settlement. In HECO's Statement of Probable Entitlement, HECO states that the Parties "also have stipulated to the use of a 9.50% ROE and a resulting 7.57% ROR [rate of return on average rate base] for the limited purpose of determining the revenue requirement for the interim order in this case."[49] As a result, HECO's Statement of Probable

[47]Settlement at 1.

[48]Settlement at 1.

[49]HECO Statement of Probable Entitlement at 1. HECO expressly clarifies that its agreement to a 9.5% ROE and resulting overall 7.57% ROR is for the limited purpose of determining HECO's revenue requirement for the Interim Decision and Order and "is without prejudice to [HECO's] position that the 9.75% ROE and 7.72% ROR

Entitlement provides for a revenue increase of $53,678,000 over revenues at current effective rates, resulting in a total revenue requirement of $1,589,121,000, based on a 7.57% ROR on average rate base.[50] The Consumer Advocate's Statement of Probable Entitlement, while also incorporating a 7.57% ROR on average rate base, provides for a revenue increase of $53,813,000 over revenues at current effective rates, for a total revenue requirement of $1,589,249,000.[51]

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values should be used in determining the final revenue requirement in this rate case." Id. at 1 n.4.

On this subject, there appears to be confusion between the Parties, as the Consumer Advocate states in its Statement of Probable Entitlement, "Hawaiian Electric'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%." Letter From: Consumer Advocate To: Commission Re: Docket No. 2016-0328 - In the Matter of the Application of Hawaiian Electric Company, Inc. For Approval of Rate Increases and Revised Rate Schedules and Rules - Statement of Probable Entitlement, filed November 17, 2017 ("CA Statement of Probable Entitlement"), at 1-2. However, the commission reasonably assumes that the Consumer Advocate has no objection to HECO's position in HECO's Statement of Probable Entitlement, as it is consistent with the Consumer Advocate's Statement of Probable Entitlement.

[50]HECO Statement of Probable Entitlement, Attachment 1 at 1.

[51]CA Statement of Probable Entitlement, Attachment 1 at 1.

II.

DISCUSSION

A.

Probable Entitlement

With respect to a public utility's showing of probable entitlement to an interim rate increase 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 increase."[52] "[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."[53]

HRS § 269-16(d) requires that the commission make every effort to complete its deliberations with respect to a public utility's request for a rate increase "as expeditiously as possible and before nine months from the date the public utility filed its completed application." The statute further provides that, if such deliberations are not concluded within the nine-month period,

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[52]Application of Hawaii Elec. Light Co., Inc., 60 Haw. 625, 637, 594 P.2d 612, 621 (1979).

[53]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.").

the commission shall render an interim decision within one month after the expiration of the nine-month period. The commission may postpone its interim rate decision an additional thirty days if the commission considers the evidentiary hearing, if held, incomplete. The interim decision may allow an increase in rates if the commission believes the public utility is "probably entitled" to such interim rate relief.

With regard to interim rate relief, the commission has previously determined that

> . . . in 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 determination of reasonableness with respect to certain unresolved matters. Otherwise, the speed with which the public utility is given interim rate relief would be affected.[54]

While a review for probable entitlement is necessarily less rigorous than that accorded in rendering a decision on final rates, the commission must nevertheless be convinced that the

[54] In re. Haw. Elec. Co., Inc., Docket No. 6998, Interim Decision and Order No. 11559, filed on March 31, 1992, at 7; see also In re Maui Elec. Co., Ltd., Docket No. 2009-0163, Interim Decision and Order No. 22050, filed July 27, 2010, at 11-12 n.18.

utility is, indeed, probably (i.e., more likely than not)[55] entitled to the various underlying components of the request for interim rate relief. Stated differently, HECO has the burden of establishing probable entitlement to the requested rate relief.

Here, for purposes of this Interim Decision and Order, and subject to the adjustments and findings herein, the commission accepts the majority of the Parties' Settlement, which is reflected in HECO's Statement of Probable Entitlement. However, the commission is not convinced that HECO has met its burden of proving that it is probably entitled to recover several items in the amounts stated in its Statement of Probable Entitlement. Accordingly, the commission makes the adjustments set forth below.[56]

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[55]See Black's Law Dictionary 1201 (6th ed. 1990) (defining "probable" as "[h]aving more evidence for than against; supported by evidence which inclines the mind to believe, but leaves some room for doubt").

[56]To the extent the commission does not single out a component of the Parties' Settlement for further examination and/or adjustment, this should be construed as the commission's acceptance of the non-identified component, as it is presented in the Parties' Settlement and HECO's Statement of Probable Entitlement; provided, however, that the adjustments required by the commission may necessitate corresponding adjustments to other components.

B.

Interim Adjustments

1.

Adjustment Regarding Amortization Of The Excess Pension Contribution Balance

In Order No. 34260, the commission stated that it was transferring and consolidating HECO's 2014 Filing (Docket No. 2013-0373) with this proceeding (Docket No. 2016-0328) "in order to ensure that ratepayers receive the attendant benefits of HECO's abbreviated rate case filing."[57] This encompasses "the determination and disposition of any rates, accounts, adjustment mechanisms, and practices that would have been subject to review in the context of a 2014 test year rate case proceeding," which may be "subject to appropriate adjustments based on evidence and findings in the consolidated rate case proceeding, Docket No. 2016-0328."[58]

In Order No. 34453, the commission clarified that it specifically intended to examine HECO's proposal to commence in 2014 the five-year amortization of its excess pension contribution balance.[59] In its 2014 Filing, HECO admitted that it "inadvertently omitted amortization from the calculation of contributions in

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[57]Order No. 34260 at 16.

[58]Order No. 34260 at 16.

[59]See Order No. 34453 at 20-22.

excess of [Net Period Pension Costs ("NPPC")] regulatory asset balances," and "[a]ccordingly, there [was no] amortization recorded in 2011 through 2013."[60] As a result, HECO proposed to commence the five-year amortization of its excess pension contribution balance in 2014, which would have the effect of establishing the amortization period such that it would continue through 2018, and thus, fall within the 2017 Test Year.[61]

Accordingly, in Order No. 34453, the commission stated that it would:

> [E]xamine whether HECO should have commenced the amortization of its excess pension contribution balance in 2011, and whether HECO should adjust the balance and amortization period to reflect the beginning of amortization in 2011, or what other remedies would be appropriate to ensure that ratepayers are not unfairly penalized for HECO's 'inadvertent omission' and subsequent accounting treatment, including, but not limited to, whether HECO should adjust the balance and remaining amortization period to reflect the beginning of amortization in 2011.[62]

[60]Order No. 34453 at 21 (citing HECO 2014 Filing, Book 2, HECO-1325 at 2).

[61]See Order No. 34453 at 21-22. In essence, if HECO had amortized the excess pension contributions as intended, over five years beginning from the date of HECO's last rate case (i.e., from 2011-2015), the pension contribution excess would be fully amortized before 2017, and thus excluded from the 2017 Test Year. However, because HECO did not begin to amortize this amount in 2011, HECO's proposal to begin amortizing this amount from 2014 would result in an amortization period that encompasses the 2017 Test Year (i.e., 2014-2018).

[62]Order No. 34453 at 22.

The commission notes that in its 2014 Filing, HECO's excess pension contribution balance as of December 31, 2014, equaled $19,411,000.[63] This is still reflected as HECO's excess pension contribution balance for its 2017 Test Year, as amortization of this amount has not yet occurred,[64] and, if accepted, the amortization amount would add $3,882,000 to HECO's 2017 Test Year expenses.[65]

In response to the Consumer Advocate's CA-IR-186, HECO updated its 2017 Test Year contributions in excess of NPPC schedule to reflect the assumptions of a December 15, 2017, Interim Decision and Order (as contemplated by Procedural Order No. 34721).[66] HECO's updated schedule noted a Contributions in Excess of NPPC balance at December 15, 2017, of $19,411,000 and a 2017 Test Year amortization amount of $3,882,000.[67]

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[63]HECO 2014 Filing, Book 1, HECO-1325 at 2.

[64]See Application, Direct Testimonies and Exhibits, Book 6, HECO-1702 at 3.

[65]$19,411,000/5 = $3,882,200 (as noted, supra, the excess pension contribution balance is amortized over a five-year period).

[66]See HECO Response to CA-IR-186(c), filed August 8, 2017.

[67]HECO Response to CA-IR-186, Attachment 1 at 3. In essence, this is consistent with the amortization of HECO's excess pension contribution balance not occurring following HECO's 2011 rate case (i.e., Docket No. 2010-0080, in which the commission issued its Interim Decision and Order on July 22, 2011).

Subsequently, the commission asked HECO to update its 2017 Test Year Contributions in Excess of NPPC regulatory asset balance and the related Test Year amounts to reflect amortization beginning in 2011 (as originally contemplated).[68] HECO's response to PUC-HECO-IR-8 indicated that its Contributions in Excess of NPPC balance at December 15, 2017, would be $2,259,000, with a 2017 Test Year amortization amount of $452,000.[69] The difference between the 2017 Test Year Contributions in Excess of NPPC balance numbers in HECO's response to CA-IR-186, $19,411,000, and HECO's response to PUC-HECO-IR-8, $2,259,000, i.e., $17,152,000,[70] represents the effect of accepting HECO's proposed accounting treatment of its "inadvertent omission" regarding the excess pension contribution balance, versus the likely result if HECO had not made its error. This difference would result in a decrease in HECO's 2017 Test Year Contributions in Excess of NPPC amortization

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[68]See PUC-HECO-IR-8, issued October 24, 2017. The balance in the NPPC regulatory asset is determined during a rate case and then amortized over the next five years; accordingly, the amount of excess contributions is calculated to determine the amount to be amortized and placed in the test year's expenses. In essence, this estimates the amortization of HECO's excess pension contribution balance as if it had occurred following HECO's 2011 rate case.

[69]HECO Response to PUC-HECO-IR-8, filed November 3, 2017, Attachment 1 at 1. $2,259,000/5 = $451,800 (rounded up to $452,000).

[70]$2,259,000 - $19,411,000 = ($17,152,000).

amount of approximately $3,430,000[71] and a decrease of approximately $16,625,000 to HECO's average 2017 Test Year rate base balance.[72]

In other words, the effect of HECO's "inadvertent omission" is an increase in expenses and rate base for ratepayers. Under the circumstances, the commission does not believe it is fair or reasonable for ratepayers to bear the consequences, in the form of an increase in expenses and rate base, for what is solely HECO's error. Furthermore, the commission notes that had HECO filed and proceeded with a complete rate case in 2014, this issue of the unamortized excess pension contributions would have been noted then and addressed at that time.

Accordingly, for the reasons discussed above, HECO shall update its 2017 Test Year Contributions in Excess of NPPC balance and the related Test Year amortization amounts to reflect amortization of the balance starting on July 22, 2011[73], and using

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[71]$452,000 - $3,882,000 = ($3,430,000).

[72]$2,705,000 - $19,330,000 = ($16,625,000). See HECO Response to PUC-HECO-IR-8, Attachment 1 at 1, line 21 (revised November 17, 2017); and HECO Response to CA-IR-186, Attachment 1 at 3, line 8.

[73]As noted by the Consumer Advocate in its Supplemental Response to PUC-CA-IR-1, the effective date of HECO's 2011 test year interim order was July 26, 2011. For purposes of this adjustment, the commission will use the July 22, 2011 date as the starting date for the amortization of the excess pension contribution balance.

the hypothetical dates of April 30, 2015, and May 1, 2015, as detailed in HECO's revised response to PUC-HECO-IR-8, Attachment 1, filed November 17, 2017.[74]

2.

Adjustments Regarding The Pension And OPEB Tracking Account Balances

In Order No. 34453, the commission clarified that it intended to examine whether HECO's Pension Tracking Regulatory Asset/Liability Account ("Pension Tracking Mechanism" or "Pension Tracker") and Other Post-Employment Benefits Tracking Regulatory Asset/Liability Account ("OPEB Tracking Mechanism" or "OPEB Tracker") balances should be adjusted as a result of HECO's decision to forgo a rate increase in 2014.[75]

In general, HECO is authorized to collect expenses related to provision of its pension plan (net period pension costs, or "NPPC") and OPEB (net period benefits costs or "NPBC") through its base rates. In a rate case, these expenses are included in the estimates for the subject test year and used to establish rates. In between rate cases, HECO utilizes the Pension and OPEB

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[74]HECO's Response to PUC-HECO-IR-8, Attachment 8, Revised November 17, 2017, notes the December 15, 2017 balance, 2017 Test Year amortization amount, and the Test Year average rate base balance of $2,259,000, $452,000, and $2,705,000, respectively.

[75]Order No. 34453 at 22-24.

Tracking Mechanisms to record the difference between the level of actual NPPC and NPBC costs during the interim years and the amounts provided for in base rates set by the last rate case in a regulatory asset or liability account. The Pension and OPEB regulatory asset/liability balances are included in rate base and amortized over a five-year period at the time of the next rate case.

While HECO maintains that "customers were not negatively impacted as a result of the 2014 Filing, and that the 2017 test year revenue increase and revenue requirement need not and should not be adjusted,"[76] the commission does not find this persuasive. In short, the effect of allowing the Pension and OPEB Tracking Mechanisms to accumulate their respective balances since 2011 has resulted in balances that are now, in the 2017 Test Year, far larger than would otherwise have resulted had HECO proceeded with a complete rate case in 2014.[77] As these Pension and OPEB Tracker balances are ultimately incorporated into rates, their effects on ratepayers should not be disregarded, particularly where the impact stems from HECO's decision to file an "abbreviated" rate

[76]Settlement, Exhibit 1 at 102.

[77]In this sense, HECO's statement that "customers were not negatively impacted as a result of the 2014 Filing," is misleading, in that it is true that customers have not yet experienced the negative impact of the deferred Pension and OPEB costs which have been accumulating in the tracking mechanisms, but will once these balances are incorporated into HECO's new rates.

case filing in 2014, which HECO maintained was to the benefit of ratepayers.

In its 2014 Filing, HECO stated that it "is foregoing the opportunity to seek an increase in base rates based on a 2014 test year in recognition that its customers are already in a challenging high bill environment."[78] Stated more plainly by HECO in its 2014 Filing, "[b]y this filing, [HECO] intends to forego the opportunity to seek a general rate increase in base rates. If approved, this filing would result in no change in base rates at this time."[79] In support of this statement, HECO argued that it was actually entitled to a revenue increase of approximately $56,212,000, or approximately 2.5% over revenues at (then) current effective rates, based on a normalized 2014 test year.[80] Attached in support of HECO's 2014 Filing were schedules and workpapers which supported HECO's purported increase in revenues; specifically, its 2014 test year Pension and OPEB costs (which included the 2014 NPPC and NPBC amounts), the amortization of HECO's Pension and OPEB Tracker balances, and the amortization of

[78]HECO 2014 Filing at 1.

[79]HECO 2014 Filing at 1.

[80]HECO 2014 Filing at 2.

the Contributions in Excess of NPPC Regulatory Asset balance were included in HECO's 2014 revenue requirement increase.[81]

By including these costs in its estimated $56 million 2014 test year revenue requirement increase, it is logical to conclude that these costs were part of what HECO pledged to "forgo" in its agreement to forgo an increase in base rates in 2014. That being said, HECO also qualified this pledge by stating:

> The Pension and OPEB tracking mechanisms will continue. Recorded Net Periodic Pension Cost ("NPPC")/Net Periodic Benefits Cost ("NPBC") would continue at the level in 2011 base rates, instead of increasing to new levels. The difference between the amount of NPPC/NPBC in 2011 rates and the actual NPPC/NPBC will continue to be charged or credited to the regulatory asset or liability. Amortization of amounts accrued in the regulatory asset or liability since the last rate case would commence with the next rate case in which there is a change in base rates. See Attachment 4, HECO T-13.[82]

This statement appears to contradict HECO's earlier statement in which it pledged to "forgo" an increase in base rates in 2014, as the approximately $56 million in revenue increases HECO claimed to forgo included the NPPC and NPBC amounts and the Pension and OPEB costs accrued between HECO's 2011 rate case and the 2014 test year. It remains unclear how HECO intended to

[81]See HECO 2014 Filing, Book 1, HECO-2902 at 1; id., Book 2, HECO-1301A at 2, and HECO-1601.

[82]HECO 2014 Filing at 7.

"forgo" the approximately $56 million revenue increase, including the NPPC and NPBC amounts and the Pension and OPEB Tracker expenses (as indicated on page 1 of HECO's 2014 Filing), yet continue to allow the Pension and OPEB Trackers to accrue since the last rate case (i.e., 2011) until "the next rate case in which there is a change in base rates[,]" i.e., the current rate case (as indicated on page 7 of HECO's 2014 Filing). This resembles a deferral, rather than a forbearance.[83]

Nevertheless, the commission strives to read HECO's 2014 Filing harmoniously, and concludes that the pledge to "forgo" an increase in base rates was intended to pertain only to the accrued amounts in the Pension and OPEB Trackers at the time of

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[83]According to Merriam-Webster's Dictionary, "forgo" is defined as "to give up the enjoyment or advantage of: do without." This encompasses a sense of permanence; i.e., HECO's willingness to permanently relinquish its claim to recover those increases in revenue, based on a normalized 2014 test year, that HECO claimed it deserved.

In this regard, while the Consumer Advocate declined to recommend an adjustment for this particular issue, it did note in its Direct Testimony that "[n]otwithstanding the above carveouts regarding . . . retaining the Pension and OPEB baselines at 2011 levels, HECO knew or should have known that the practical result of not . . . rebasing the pension/OPEB tracking mechanisms may have avoided increased cost pressure or a base rate increase in 2014, but would eventually translate into higher rates later.") CA Direct Testimony, CA-T-1 at 58-59 (emphasis added); see also id. at 59 ("HECO must have assumed that a portion of the cost recovery that was foregone would result in eligible deferrals of pension and OPEB costs whose recovery from ratepayers would merely be shifted from the 2014 abbreviated filing to future base rate cases.")

the 2014 Filing, but was not intended to affect the NPPC and NPBC amounts included in HECO's 2011 base rates.

Turning to HECO's 2014 Filing, the commission has repeatedly indicated that it transferred and consolidated HECO's 2014 Filing with this proceeding to ensure that ratepayers receive the attendant benefits of HECO's 2014 Filing.[84] In order to give effect to HECO's expressed intent in its 2014 Filing to "forg[o] the opportunity to seek an increase in base rates based on a 2014 test year," such that "this filing would result in no change in base rates at this time[,]" the commission finds that HECO has relinquished a part of the recovery of those pension and OPEB costs that had accrued in the Pension and OPEB Trackers up until April 30, 2015.[85] The commission concludes that this is reasonable, considering the language of HECO's 2014 Filing, the clear meaning of HECO's agreement to forgo identified revenues, and HECO's stated intent to provide a benefit to ratepayers.

For the reasons set forth above, the commission finds that HECO should update its respective 2017 Test Year Pension and OPEB Tracking Regulatory Asset/Liability balances. On May 12, 2017, pursuant to Order No. 34512, HECO submitted updated

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[84]See Order No. 34260 at 16; Order No. 34453 at 26; and Order No. 34512 at 8.

[85]Amortization amount from May 1, 2015, to December 15, 2017.

Pension and OPEB tracking regulatory asset and liability schedules that "reflect the use of the 2014 net periodic pension cost ('NPPC') and net period[ic] benefit[s] cost ('NPBC') amounts in the pension and other post-employment benefits ('OPEB') tracking regulatory asset and liability schedules, with respective balances incorporating the tracking of the 2014 NPPC and NPBC to the NPPC and NPBC established in HECO's 2011 test year rate case up to April 30, 2015, and to start the amortization of the pension and OPEB tracking regulatory asset and liability balances on May 1, 2015."[86] Subsequently, in response to CA-IR-187, HECO updated the schedules provided in its May 12, 2017 Supplemental Filing to incorporate actual NPPC and NPBC amounts and the assumption of a December 15, 2017, interim decision and order date.

According to HECO's calculations, the Pension Tracker balance as of April 30, 2015, was $59,558,000.[87] The commission finds that this is a reasonable proxy for the amount in the Pension Tracker that had accrued following the interim decision and order in HECO's 2011 rate case up to what would have been the interim decision and order date in HECO's 2014 rate case.[88]

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[86]HECO May 12, 2017 Supplemental Filing at 1.

[87]HECO Response to CA-IR-187, Attachment 1 at 1.

[88]As noted in Order No. 34512, a hypothetical April 30, 2015, date is consistent with the June 27, 2014 filing date of HECO's 2014 Filing and the statutory deadlines governing rate case proceedings. See Order No. 34512 at 5-6.

Accordingly, consistent with HECO's representations in its 2014 Filing, the commission concludes that HECO should be required to "forgo" the amount that would have been amortized from May 1, 2015, to December 15, 2017, so that ratepayers may receive the attendant benefits of HECO's 2014 Filing.[89] The commission finds that these amortized amounts constitute the "forgone" revenues that HECO offered in its 2014 Filing, consistent with its pledge to "not seek an increase in base rates."

HECO's OPEB Tracker amount should be adjusted in a similar manner. HECO's response to CA-IR-187 also updated its OPEB Tracker amounts, and reflects the OPEB Tracker balance as of April 30, 2015.[90] According to HECO's calculations, the OPEB Tracker balance as of April 30, 2015, was ($4,188,000).[91] The commission finds that this is a reasonable proxy for the amount in the OPEB Tracker that had accrued following the interim decision and order in HECO's 2011 rate case up to what would have been the interim decision and order date in HECO's 2014 rate case. In accordance with the treatment of the Pension Tracker balance discussed above, the commission finds that HECO should adjust the

[89]Similar to the Excess Pension Contribution balance, HECO's Pension Tracker balance is amortized over a five-year period.

[90]HECO Response to CA-IR-187, Attachment 2 at 1 (supplemented on August 21, 2017.

[91]HECO Response to CA-IR-187, Attachment 2 at 1 (supplemented on August 21, 2017).

amount that would have been amortized between May 1, 2015, and December 15, 2017.

That being said, the commission will allow HECO to use the 2011 base rate amount in its calculation of the 2017 Test Year pension and OPEB tracking regulatory asset/liability balances. The commission interprets HECO's 2014 Filing as forgoing a portion of the amounts accrued in HECO's Pension and OPEB Tracking Regulatory Asset/Liability balances as of April 30, 2015,[92] but not necessarily forgoing the Pension and OPEB amounts included in the 2011 base rates. In essence, consistent with HECO's interpretation of its 2014 Filing as an "abbreviated rate case," the commission finds that HECO forwent recovery of the balances in the Pension and OPEB Trackers for what would have been the 2014 test year, had there been a rate case, but the Tracker balances would continue to operate based on the NPPC and NPBC amounts established in 2011 base rates, rather than the NPPC and NPBC amounts represented in the 2014 abbreviated rate case Filing.

The commission concludes that this is a reasonable adjustment, under the circumstance, which provides ratepayers with the attendant benefits of HECO's 2014 Filing pledge to "forgo" an increase in base rates, while giving effect to HECO's statement

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[92]The amortization amounts from May 1, 2015, to December 15, 2017.

that its Pension and OPEB Trackers would continue to operate based on the NPPC and NPBC levels established by 2011 base rates.[93] In fashioning this adjustment, the commission has considered numerous factors, including schedules and statements in the record, as well as the technical mechanics of the Pension and OPEB Trackers, and finds that this represents an equitable arrangement that considers the overall intent of HECO's 2014 Filing and fairness to ratepayers.

Conversely, to find that HECO is entitled to recover all its Pension and OPEB Tracker amounts from 2011 to 2017, as proposed by HECO, would acknowledge that HECO did not truly intend to forgo an increase in its base rates as stated in its 2014 Filing, as these amounts would silently accrue in the Pension and OPEB Trackers and eventually be recouped in HECO's next rate case (i.e., this proceeding). The commission declines to adopt this interpretation, as it is neither fair to ratepayers nor reasonably consistent with HECO's pledge to forgo an increase in base rates in its 2014 Filing. Inherent in that pledge is the intent to completely and permanently relinquish the right to recover certain expenses associated with HECO's 2014 test year. To allow HECO to recover these expenses now, in the form of the accumulated Pension and OPEB Tracker balances, would essentially transform

[93] See HECO 2014 Filing at 1 and 7.

HECO's pledge to "forgo" these amounts into merely a deferral. Not only does this claw back "forgone" benefits pledged to ratepayers, but it also has the effect of "rate shock," in that, rather than beginning to amortize these amounts in 2014 and allowing them to gradually increase rates, the Pension and OPEB Tracker balances, which have been accumulating since 2011, will have ballooned to a much greater amount in the 2017 Test Year and will result in a much larger impact on HECO's rates.

As a result, the 2017 Test Year Pension Tracking Regulatory Asset balance at December 15, 2017, should be adjusted to $82,072,000, and the related Test Year amortization amount should be adjusted to $16,414,000. HECO's average test year Pension Tracking Regulatory Asset balance included in rate base should be adjusted to $79,119,000.

Likewise, the 2017 Test Year OPEB Tracking Regulatory Asset/Liability balance at December 15, 2017, should be adjusted to ($5,163,000), and the related Test Year amortization amount should be adjusted to ($1,033,000). HECO's average Test Year OPEB Tracking Regulatory Asset/Liability balance included in rate base should be adjusted to ($4,860,000).

3.

HECO's Proposed Regulatory Asset

As part of its May 31, 2017 Supplemental Filing, HECO stated:

> Hawaiian Electric indicated that the calculations submitted should not be considered in isolation. The calculation incorporating the 2014 test year NPPC and NPBC as the NPPC and NPBC in rates in the Pension and OPEB tracking mechanism as of May 1, 2015 results in changes in other items for 2015, 2016, and 2017 that have a cumulative impact. Under this scenario, higher pension/OPEB regulatory asset amortization expense would increase employee benefits expenses in 2015, 2016, and 2017. The higher employee benefits expense, would increase the employee benefits loadings on capital projects (i.e., employee benefits overheads on capitalized labor should be adjusted). The change in employee benefits overheads results in higher plant additions amounts. The increase in plant additions results in higher depreciation expense (in the year following the plant addition going into service), accumulated depreciation expense and accumulated deferred income taxes. The impact of these changes is summarized on Attachment 1.[94]

HECO states that, as a practical matter, the allocation of employee benefits to capital costs cannot be allocated to all of the individual projects that were constructed in the 2015 to 2017 timeline. Accordingly, HECO proposes that if the commission decides to make any adjustment to reflect the 2014 test year NPPC and NPBC as of May 1, 2015, that the commission place the

[94]HECO May 31, 2017 Supplemental Filing at 2.

cumulative impact of this adjustment to HECO's plant-in-service and accumulated depreciation into a regulatory asset, to be amortized over thirty years.[95]

Under the circumstances, the commission finds HECO's above proposal reasonable. HECO's proposal appears to be intended to make corresponding adjustments to its net plant-in-service and accumulated depreciation accounts that would result from the commission's hypothetical adjustments to HECO's 2017 Test Year Pension and OPEB Tracker balances.

However, since the commission is allowing HECO to use the 2011 NPPC and NPBC amounts included in its calculation of the 2017 Test Year Pension and OPEB Tracking Regulatory Asset/Liability balance, but requiring HECO to begin amortizing the April 30, 2015 Pension and OPEB Tracking Regulatory Asset/Liability balance on May 1, 2015, HECO's proposed plant regulatory asset amount, as proposed in HECO's response to PUC-HECO-IR-8 (revised on November 17, 2017), must be adjusted correspondingly.

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[95]HECO May 31, 2017 Supplemental Filing at 4. HECO's proposed regulatory asset would result from HECO's May 12, 2017 Supplemental Filing in which HECO utilized the 2014 NPPC and NPBC amounts and the hypothetical April 30, 2015, and May 1, 2015, dates in its calculation of the 2017 Test Year Pension and OPEB Tracker balances pursuant to Order No. 34557. HECO's proposed thirty-year amortization of this regulatory asset is consistent with HECO's current composite depreciation rate of 3.3%.

Regarding treatment of the proposed regulatory asset, the commission finds that HECO's request to place the cumulative impact of these adjustments to net plant-in-service and accumulated depreciation into a regulatory asset is reasonable, given the practical difficulties with attempting to adjust each plant account. Finally, the commission finds HECO's request to amortize this regulatory asset over thirty years is reasonable, as it appears consistent with HECO's current composite depreciation rate.

4.

HECO's Target Revenue

Target Revenue is a fundamental ratemaking parameter for the HECO Companies.[96] Ultimately, Target Revenue approved in the rate case proceeding is the primary and dispositive determinant of the amount of accrual and collection of allowed base rate revenues[97]. Identification and characterization of Target Revenue also provides a clear metric of the proposed revenues and changes

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[96]Target Revenue is defined and used by the Revenue Balancing Account (RBA) tariff to establish the amount of base revenue allowed to be accrued and collected by each of the HECO Companies.

[97]Regardless of what rate schedules are approved for each customer class, the amount of revenues accrued and recovered by HECO will ultimately be determined by and adjusted to the amount of effective Target Revenue.

in revenues, excluding the large and volatile components of fuel and purchased power expense, which are recovered through adjustment mechanisms outside of base rates (e.g., the ECAC and Purchased Power Adjustment Clause).[98]

The commission notes that most of the substantive issues regarding the amount of proposed revenues and changes in revenues in this rate case proceeding are components included in Target Revenue. As presented in the results of operations showing the amount of proposed increase in revenue requirements over currently effective revenue requirement in HECO's Statement of Probable Entitlement, revenue increases are <u>entirely</u> components of Target Revenue.[99]

The commission observes that Target Revenue would increase substantially over current Target Revenue as a result of the proposed interim rate adjustment. The magnitude of this

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[98]In existing rates, a component of fuel and purchased power expense is included in base rates, but the total amount of revenue accrued and recovered for fuel and purchased power expense is ultimately determined in adjustment clause mechanisms.

[99]<u>See</u> <u>e.g.</u>, HECO Statement of Probable Entitlement, Attachment 1 at 1. Differences between revenues at current effective rates and proposed rates result exclusively from components that are included in Target Revenue. The expenses excluded from Target Revenue (i.e., Fuel expense, Purchased Power expense, and Taxes Other Than Income Tax associated with fuel and purchased power expense), are identical in the statements of revenues at current effective and proposed rates. <u>See</u> Table 1, <u>supra</u>.

increase is not apparent in the characterization of proposed revenue increase in the Settlement or Statements of Probable Entitlement wherein revenue increase is stated as 3.5% of overall revenue requirements.[100] This portrayal does not characterize the magnitude of the increases in 2017 Test Year expenses that contribute to Target Revenue. As shown in Table 1 below, the revenue components that contribute to Target Revenue, as proposed, would increase by 8.1% over currently effective rates:[101]

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[100]See HECO Statement of Probable Entitlement at 1-2.

[101]The amount of Target Revenue that would become effective at the time interim rates become effective is not calculated or identified in the Settlement or Statements of Probable Entitlement, but can be determined by a straightforward calculation from the information provided, in accordance with the clear language in HECO's RBA tariff:

> [T]arget revenue is the annual electric revenue approved by the Public Utilities Commission in the last issued Decision & Order in the Company's most recent test year general rate case, excluding revenue for fuel and purchased power expenses that are recovered either in base rates or in a purchased power adjustment clause; excluding revenue being separately tracked or recovered through any other surcharge or rate tracking mechanism; and excluding amounts for applicable revenue taxes; Plus: Any effective RAM Revenue Adjustment calculated under the RAM provision for years subsequent to the most recent rate case test year for which the Commission has issued a Decision & Order; and Less: Any applicable Earnings Sharing Revenue Credits, Major Capital Projects Credits, and Baseline Capital Projects Credits calculated under the RAM provision.

TABLE 1

($ Thousands)

	Revenues at Current Effective Rates	Proposed Settlement Revenue at 9.5% ROE	Change
Electric Sales Revenue	1,532,472	1,586,133	3.50%
Fuel	327,609	327,609	
Purchased Power	466,211	466,211	
Revenue Tax @ .08885	136,160	140,928	
Target Revenue	602,492	651,385	8.12%

As can be seen in Table 1 above, the proposed increases in non-fuel and purchased power expense are larger in proportion when considered without the relatively large fuel and purchased power expenses that are collected outside of base rates.

This "masking" effect of stating revenues and changes in revenues solely in terms of overall revenue requirement is more pronounced in the characterization of changes in expenses compared to results of previous rate cases. The large downward changes in the amounts of fuel and purchase power expense that have occurred since HECO's 2011 test year rate case mask substantial increases in expenses for the other components of HECO's 2017 Test Year expenses, as illustrated in the following Table 2:[102]

[102]Table 2 compares electric sales revenue, calculated target revenue, and rate impacts from information provided in HECO's Statement of Probable Entitlement, Attachment 1 at 1, and HECO's Application, Direct Testimonies and Exhibits, Book 1, at HECO-402.

TABLE 2

Comparison of HECO Test Year Revenue Requirement and Target Revenue					
2011 Test Year vs. 2017 Test Year Settlement and Probable Entitlement					
	TY2011 Prob. Entitlement Revenue	Proposed Settlement Revenue at 9.50% ROE		Six-Year Increase	Compound Ann. Increase
Target Revenues ($000s)					
Electric Sales Revenue	1,761,072	1,586,133	(174,939)	-9.93%	-1.73%
Fuel	658,172	327,609	(330,563)	-50.22%	-10.98%
Purchased Power	438,707	466,211	27,504	6.27%	1.02%
Revenue Tax at 8.885%	156,471	140,928	(15,543)	-9.93%	-1.73%
Revenue Excluded from Target Revenue	1,253,350	934,748	(318,602)	-25.42%	-4.77%
Target Revenue	507,722	651,385	143,663	28.30%	4.24%
Sales (MWh)	7,469,500	6,660,200	(809,300)	-10.83%	-1.89%
Average Rates ($ per kWh)					
Fuel, Purchased Power, Revenue Tax	$0.168	$0.140	($0.027)	-16.36%	-2.93%
Target Revenue	$0.068	$0.098	$0.030	43.89%	6.25%
Total (Rev. Req. per kWH)	$0.236	$0.238	$0.002	1.01%	0.17%

As shown in Table 2 above, Target Revenue, which excludes fuel, purchased power expense, and revenue taxes, increased by $144 million (28.3%), while fuel, purchased power and revenue taxes decreased by $319 million (25.4%), resulting in a net decrease in overall electric sales revenue of $174 million (9.9%). However, the lower revenue requirement does not result in lower average customer rates due to declining sales (-10.8%). In terms of average rate impacts, the impacts of increasing target revenues are largely offset by decreases in fuel and purchased power expense.[103]

As shown in Table 3 below, several categories of 2017 Test Year expenses have increased at rates remarkably in excess of the rate of inflation since HECO's 2011 test year rate case:

TABLE 3

($ Thousands)

Comparison of HECO Test Year Revenues Expenses and Rates
TY2011 vs TY2017 Settlement Probable Entitlement

	TY2011 Prob. Entitlement Revs	Proposed Settlement Revenue at 9.5% ROE	Six-Year Change	Six-Year % Change	Compound Ann. Change
Electric Sales Revenue	1,761,072	1,586,133	(174,939)	-9.93%	-1.73%
Other Operating Revenue	6,137	2,922	(3,215)		
Gain on Sale of Land	240	66	(174)		
Total Operating Revenues	**1,767,449**	**1,589,121**	**(178,328)**	**-10.09%**	**-1.76%**
Fuel	658,172	327,609	(330,563)	-50.22%	-10.98%
Purchased Power	438,707	466,211	27,504	6.27%	1.02%
Production	91,823	79,306	(12,517)	-13.63%	-2.41%
Transmission	15,995	15,808	(187)	-1.17%	-0.20%
Distribution	41,545	46,825	5,280	12.71%	2.01%
Customer Accounts	14,611	20,354	5,743	39.31%	5.68%
Allowance for Uncoll. Accts	1,463	732	(731)		
Customer Service	6,633	15,651	9,018	135.96%	15.38%
Admin and General	86,415	123,640	37,225	43.08%	6.15%
Operation and Maintenance	**1,355,364**	**1,096,136**	**(259,228)**	**-19.13%**	**-3.48%**
Depreciation & Amortization	87,475	130,637	43,162	49.34%	6.91%
Amortization of State ITC	(1,246)	(5,633)	(4,387)		
Taxes Other Than Income	165,638	150,392	(15,246)	-9.20%	-1.60%
Interest on Customer Dep.	727	723	(4)		
Income Taxes	49,662	66,234	16,572	33.37%	4.92%
Total Operating Expense	**1,657,620**	**1,438,489**	**(219,131)**	**-13.22%**	**-2.34%**
Operating Income	**109,829**	**150,632**	**40,803**	**37.15%**	**5.41%**
Average Rate Base	**1,354,256**	**1,989,865**	**635,609**	**46.93%**	**6.62%**

[103]Average rate impacts stated in the table are expressed in terms of revenues per total utility billed sales.

Customer Account expense increased by 39.1%, at a 5.7% compound annual growth. Customer Service expense increased by 135%, at a 15.4% compound annual growth. Administration and General expense increased by 43.1%, at a 6.15% compound annual growth.[104] Notably, average rate base increased by 46.9% and the associated Operating Income, Income Taxes, and Depreciation and Amortization expenses increased by 37.2%, 33.4%, and 49.3%, respectively.

The amount of increase in 2017 Test Year expenses is a matter of serious concern to the commission. The commission notes that expenses have been increasing at rates substantially above the rate of inflation, while sales and HECO production have been persistently decreasing. The substantial decrease in fuel expense since HECO's 2011 test year rate case has served to largely offset the increases in non-fuel-and-purchased-power expense and reductions in sales volume. However, further comparable proportionate decreases in fuel prices and fuel and purchased power expense are unlikely and are not all in the direct control of HECO;

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[104]The commission observes that a large component of the Administration and General expense are the pension and employee benefits costs. As noted above, the commission is making downward adjustments to these expenses. Excluding the pension-related expense addressed supra, the increase to Administration and General expense is 27.5% (excluding amounts transferred to capital accounts), rather than 40.8% (which includes amounts transferred to capital accounts).

indeed, substantial increases in fuel prices should be considered a realistic possibility.

In light of the concerns stated above, the commission will further examine several components of HECO's proposed 2017 Test Year expenses in the remainder of this proceeding.

In addition, recognizing the fundamental importance of Target Revenue to ratemaking, the commission expects more explicit characterization and presentation of the amounts of, and changes to, Target Revenue in rate case proceedings. In this rate case and in future rate cases, future filings that summarize proposed revenue requirements and characterize the amount of proposed changes in revenue requirements for current, effective and proposed rates, should include an accompanying quantification and presentation of the amount of, and changes in the amount of, Target Revenue at current, effective and proposed rates.

5.

Adjustment Regarding Baseline Plant Additions

As noted in the Table 3 above, HECO's average 2017 Test Year rate base has increased by 46.9% since its 2011 test year rate case, at a compound annual growth of 6.6%, substantially in excess of the rate of inflation. The proposed increase in Operating Income, Income Taxes, and Depreciation and Amortization associated with the increase in average rate base sum to over

$100 million, representing a major component of the $143 million increase in proposed Target Revenue.

As discussed below, the commission is alarmed by the substantial increase in plant additions since HECO's 2011 test year rate case, including pronounced increases for its 2017 Test Year, as well as its sharply increased projected plant additions for 2018 and 2019. The commission observes that annual plant additions have increased by approximately $43 million between 2016 and 2017 (from $256,861,000 to $300,221,000, respectively), and are estimated to more than double in 2018 (to $650,880,000) and increase again in 2019 (to $701,453,000).[105]

The commission has repeatedly expressed concern regarding a trend of substantial increases in plant additions that have occurred since HECO's 2011 test year rate case. Previously, in Docket No. 2013-0141, as part of the commission's re-investigation into the HECO Companies' decoupling mechanisms ("Decoupling Investigation"), the commission expressed concern over the trend of increasing capital expenditures:

> As noted above, in conjunction with other automatic rate adjustment mechanisms, the decoupling mechanisms essentially ensure that the HECO Companies will recover all entitled revenues regardless of virtually all circumstances that would otherwise effect utility sales and revenues. The HECO

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[105]See Application, Direct Testimonies and Exhibits, Book 5, HECO-1625 at 5.

> Companies are therefore not subject to a broad category of risks that might otherwise serve to incentivize diligent control of company expenses. With the recent persistent decreases in utility electric sales volumes, for example, the HECO Companies do not, by any discernable indications, appear to feel financially compelled to implement corresponding decreases in utility expenses to the extent that would occur with declining net revenues. Indeed, HECO's 2013 decoupling tariff filing and associated automatic rate adjustment reflects considerable increases in expenditures on investments in total plant compared to prior years, even with declining electricity sales.
>
> Of particular concern regarding the recent trend of HECO's increasing expenditures for utility plant, is that the majority of the expenditures appear to be related to baseline projects that are not subject to any prior commission review and approval process, in contrast to major capital projects that are subject to the commission's General Order No. 7, Standards for Electric Utility Service in the State of Hawaii. . . . [footnotes omitted].[106]

Subsequently, in establishing the statement of issues to govern the Decoupling Investigation, the commission expressly

[106]In re Public Util. Comm'n, Docket No. 2013-0141, Order No. 31289, "Initiating Investigation," filed May 31, 2013 ("Order No. 31289"), at 13-15. In particular, the commission observed that "HECO's 2013 decoupling tariff filing reflects considerable increases in total plant investments (including baseline and major project plant additions) since HECO's first decoupling filing -- jumping from $170 million in 2011 to $256 million in 2012 ($86 million increase from 2011), and $292 million projected for 2013 (projected $36 million increase from 2012)." Id. at 14 n.18 (citing HECO's Transmittal No. 13-03, filed on March 28, 2013, at 15-16).

identified as an issue the "[r]easonableness of automatically including all actual prior year expenditures on baseline projects in RAM ratebase."[107]

Thereafter, in instructing the HECO Companies to modify their decoupling mechanisms, the commission concluded, regarding this issue:

> As discussed in Order No. 31289, the commission has serious concerns regarding the recent trend of HECO's increasing expenditures for utility plant. As stated previously, the majority of the expenditures are related to baseline projects that are not subject to prior commission review and approval, unlike major capital projects that are subject to the commission's General Order No. 7. Given this fact, the commission has serious concerns about whether the HECO Companies have the appropriate incentives to minimize these costs.[108]

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[107]In re Public Util. Comm'n, Docket No. 2013-0141, Order No. 31635, "Identifying Issues, Establishing Procedural Schedule for Resolution of Certain Issues, and Approving, with Modifications, the Parties' Joint Stipulated Procedural Order and Schedule for Resolution of the Remaining Issues," filed October 28, 2013 ("Order No. 31635"), at 7-8.

[108]In re Public Util. Comm'n, Docket No. 2013-0141, Decision and Order No. 31908, filed February 7, 2014, at 42-43. The commission also noted that it expressed similar sentiment and concern in its Decision and Order during MECO's last rate case. Id. (citing In re Maui Elec. Co., Ltd., Docket No. 2011-0092, Decision and Order No. 31288, Exhibit C, Commission's Observations and Perspectives, filed May 31, 2013, at 3 ("From the commission's perspective, the HECO Companies appear to lack movement to a sustainable business model to address technological advancements and increasing customer expectations. The commission observes that some mainland electric utilities have begun to define, articulate and implement the vision for the 'electric utility of the future.' Without such a long-term, customer focused business strategy, it is difficult to ascertain whether [the] HECO

Consistent with these concerns, the commission found that "the continued application of the current Rate Base RAM tariffs does not result in rates that are just and reasonable as it does not incentivize cost control."[109] As a result, while the commission allowed the RAM provisions to continue pending further investigation, it ordered modifications to the RAM tariffs to "serve as an interim measure to at least partly mitigate the untenable characteristic of the existing RAM that allows the utilities' baseline expenditures to flow through the Rate Base RAM Adjustment fully and directly to increase allowed target revenues without prior review or approval by the commission and without the same measure of cost control incentives as provided by the other components of the RAM and RBA tariffs."[110]

Companies' increasing capital investments are strategic investments or simply a series of unrelated capital projects that effectively expand utility rate base and increase profits but [sic] appearing to provide little or limited long-term customer value.").

[109]Decision and Order No. 31908 at 48.

[110]Decision and Order No. 31908 at 49. Specifically, the commission limited the amount of Rate Base RAM Adjustment that could be used to determined Target Revenues to "the entire effective Rate Base RAM Adjustment from the prior year, plus ninety percent of the amount that the current RAM period Rate Base RAM Adjustment exceeds the Rate Base RAM Adjustment from the prior year[,]" as opposed to allowing complete recovery of all Rate Base RAM Adjustment costs. Id.

Similarly, in Order No. 32735 in the Decoupling Investigation, the commission reiterated its concerns regarding the HECO Companies' rapidly increasing costs,[111] and specifically found:

> 28. The commission observes that, since the time that the RAM mechanism was implemented, the HECO Companies' baseline capital expenditures have increased dramatically and have become the largest component of decoupling revenue increase adjustments. Baseline expenditures for the consolidated Companies have increased from $161 million in 2009 to $368 million in 2013. The Companies have proposed, in their pending [Power Supply Improvement Plans ("PSIPs")], an unprecedented and dramatic capital expenditure plan including more than $2 billion in capital expenditures in the next three years. Based on the commission's initial review of the proposed PSIPs, it appears that a majority of the proposed capital expenditures may be baseline expenditures not subject to review as Major Projects subject to prior General Order 7 review. Pursuant to the decoupling mechanism, the examination of these expenditures might be deferred for an extended period of time.
>
> 29. Without approved integrated resource plans, PSIPs, or any other clear, well-vetted strategic plans, and without timely rate cases to provide normal opportunities for periodic review, the Commission has scant assurance that the extensive planned capital expenditures are prudent and affordable. The RAM was not originally intended, nor is it reasonable to continue to function, as a mechanism by which such unprecedented levels [of] capital expenditures are allowed to enter

[111] See Order No. 32735 at 48-50.

> utility rate base without effective, timely regulatory review. The RAM was certainly not intended to serve as a means to circumvent appropriate and timely regulatory review of utility expenditures or as a substitute for thoroughly vetted comprehensive resource plans. [footnotes omitted].[112]

As a result of these concerns, the commission implemented a "cap" on the RAM "by limiting the amount of automatic annual RAM Revenue Adjustment increases."[113] In doing so, the commission stated that "one major purpose for this amendment is to limit the amount of unapproved capital project net plant additions that can automatically be incorporated into effective rates through the RAM."[114]

As discussed above, the commission has repeatedly stated concerns regarding the amount of, and substantial increase in, baseline expenditures in the context of the Decoupling Investigation and has made several substantial amendments to the RAM tariff to address these concerns, including imposition of limits on RAM Adjustments and the currently effective RAM Cap. The Decoupling Investigation served as a proper venue to address Company incentives regarding capital expenditures and corresponding changes to the RAM tariff for the HECO Companies

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[112]Order No. 32735 at 53-54.

[113]Order No. 32735 at 81.

[114]Order No. 32735 at 81; see also id. at 80, paragraph 75.

generally, but was not an appropriate or feasible venue to examine the prudence of specific plant additions. The proper venue for examination of the prudence of the baseline plant additions, short of any separate targeted investigation of prudence, is a general rate case proceeding.

In this proceeding HECO has the burden of proof to demonstrate that the plant included in rate base is prudent. In light of the prior concerns clearly stated by the commission, examination of the nature and amount of baseline plant additions to be included in rate base is warranted in this proceeding. HECO has not yet sufficiently demonstrated in this, or any other prior proceeding, that all of the baseline project and program plant additions are used, useful and necessary for utility purposes, or that reasonable decisions were made to prioritize and manage procurement of baseline plant in a manner that is attentive to the need to control costs consistent with, and responsive to, the commission's expressed concerns regarding substantially increased baseline plant additions.

Accordingly, the commission intends to further investigate the prudence of baseline plant additions in the remainder of this proceeding. Furthermore, pending any final determination in this proceeding, the commission is making a $5 million reduction in the amount of interim rate adjustment proposed by the Settlement and Statements of Probable Entitlement.

This reduction is implemented as a "hold-back" of interim revenues pending any final determinations of the amount of baseline plant additions that will be allowed in rate base.

This $5 million reduction is intended to roundly approximate the impact on revenue requirements that would result from a 5% reduction in the amount of net baseline plant additions allowed in rate base for the years 2014 through the 2017 Test Year.[115] This period includes the years subsequent to the commission's clear identification of concerns regarding the amount of baseline expenditure increases in the Decoupling Investigation (commencing in May of 2013), during which HECO had reasonable opportunity to make responsive adjustments to baseline expenditures.

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[115]The adjustment is an estimate of revenue requirement impacts that is made solely for the purpose of determining a reasonable amount of hold-back for this Interim Decision and Order, subject to future determinations to be made in the remainder of this proceeding. It is not intended to establish the impacts of a specific reduction in allowed plant additions, and does not presume that there will ultimately be reductions in the amounts of allowed plant additions. The estimate includes: the impacts on rate base of a 5% reduction in baseline plant additions for the years 2014 through 2017, reduced by estimates of Contributions in Aid of Construction and cumulative depreciation (but without adjustments for Accumulated Deferred Income Tax); return, income and revenue taxes assuming the Settlement positions regarding capital structure and cost rates; and depreciation and depreciation expense at an average of the approved depreciation rates for distribution plant and total plant.

The reduction in interim rate adjustment is not intended to limit the scope of examination or ultimate decision regarding the amount of allowed baseline plant additions to a 5% reduction. All baseline plant is subject to examination and adjustment in the remainder of this proceeding. Likewise, the hold-back does not presume that any reductions in allowed baseline plant additions will ultimately be made.

This reduction does not constitute a reduction in the amounts of allowed plant additions or rate base proposed in the Settlement. Rather, it is a hold-back of interim revenues pending final determinations that will be made at the time of the Final Decision and Order in this proceeding.

C.

Interim Rate Design

The Parties describe their proposed interim rate design as follows:

> The Parties agree to implement an interim rate increase with an application of percentage surcharges on base revenues by rate schedule. Hawaiian Electric 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 rate schedule. The amount of the estimated 2017 test year RAM revenues for each rate schedule shall be included in the total effective

> interim increase to recognize that the 2017 RAM revenue adjustment portion of the RBA rate adjustment terminates upon implementation of the 2017 interim rate increase, per the RAM Provision tariff [footnote omitted]. The total effective interim increase is divided by the estimate of 2017 test year base revenues for each rate schedule to determine the effective interim rate increase percentage to apply to each rate schedule's base revenues. [footnote omitted].[116]

For purposes of interim rate relief, the commission accepts the Parties' stipulated interim rate design.

D.

Deferred Matters

In reviewing the record to date, the commission finds that certain issues, identified below, merit additional examination prior to the Final Decision and Order in this docket. Thus, notwithstanding the commission's acceptance, for interim purposes, of certain issues in this Interim Decision and Order, the commission defers for further examination and final ruling in the Final Decision and Order the following issues:

HECO's ROE

According to the Settlement:

> The Parties have reached a settlement on all issues in this proceeding, except the issue of the impact of decoupling on the determination of return on equity ("ROE"). In order to reach

[116]HECO Statement of Probable Entitlement at 10.

> an overall settlement of all issues except for the impact of decoupling on ROE issue, to narrow the ROE issue, and to simplify the remaining procedural steps in this rate case, the Parties agree that (1) the fair rate of return on rate base shall be determined using the adjusted capital structure, and debt and preferred stock cost rates, included in HECO T-29 Attachment 1, provided herein, and an ROE of 9.75%, (2) the Commission will determine 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, (3) in deciding this narrowed ROE issue, the Commission shall consider the information and arguments contained in the opening and closing briefs submitted in the Hawaii Electric Light 2016 test year rate case, Docket No. 2015-0170, and (4) subject to the forgoing, the Parties waive the right to an evidentiary hearing on, [sic] and the Company shall not submit rebuttal testimony nor shall the parties file new briefs on the narrowed ROE issue. Further, to facilitate consideration of these briefs in the Hawaiian Electric 2017 test year rate case, the Parties agree that the documents in the evidentiary record in Docket No. 2015-0170 that are referred to in such briefs shall be incorporated in the record in this Docket No. 2016-0328 for purposes of this issue.[117]

Thus, while accepting an ROE of 9.50% for purposes of determining the interim rate adjustment in this Interim Decision and Order, the commission will continue to examine HECO's ROE for purposes of the Final Decision and Order.

[117]Settlement, Exhibit 1 at 4.

HECO's On-Cost Accounting Policy Change. As noted in Order No. 34453:

> Effective January 1, 2014, HECO modified its accounting procedures by implementing a new practice of allocating Energy Delivery and Power Supply clearing charges based on total project costs, rather than on internal labor dollars. Such a change in accounting policy affects $8.4 million in expenses that would have been included in HECO's operations and maintenance ("O&M") expense, based on policies in place at the time of HECO's 2011 test year rate case. Now, as a result of the change in HECO's accounting policy, the $8.4 million in expenses are being charged to capital costs, which represent an addition to rate base.[118]

The commission intends to continue its examination of whether the accounting changes implemented by HECO in 2014 prior to commission approval were reasonable; whether the accounting changes should be approved for implementation on a prospective basis; and whether the required downward adjustment to RAM Revenue Adjustments in 2015 through 2017 fairly compensate for transfers of expenses from O&M accounts to capital accounts, or whether further revenue adjustments are necessary.

Modifications to the ECAC.

Pursuant to the Statement of Issues, as set forth in Order No. 34721, one of the issues established for this proceeding is whether HECO's proposed changes to the ECAC are just and

[118] Order No. 34453 at 19-20.

reasonable.[119] Notwithstanding the Parties' stipulation on certain proposed revisions to the ECAC, the commission finds that there are numerous issues regarding the ECAC that warrant further examination in the remainder of this proceeding, including: modifications to the ECAC such as those proposed by Blue Planet; revisions to the ECAC tariff language, including stipulated changes provided as Attachments to HECO's Statement of Probable Entitlement;[120] and details regarding the separation and transfer of fuel and purchased energy costs from base rates into an appropriate energy cost adjustment mechanism. The commission anticipates that these issues may ultimately result in substantial changes to the structure and function of the ECAC tariff. Accordingly, consistent with the commission's intent to further examine HECO's ECAC tariff in this proceeding, the commission will not adopt, at this time, the Settlement's stipulated ECAC tariff revisions.

Review of Components of HECO's Target Revenue.

As discussed above, the commission has identified a number of concerns regarding HECO's Target Revenue, including significant increases in certain 2017 Test Year expense categories

[119]See Order No. 34721 at 6.

[120]See HECO Statement of Probable Entitlement, Attachments 6 and 6A.

and plant additions since the 2011 rate case, as well as dramatic increases in plant additions estimated for 2018 and 2019. The commission intends to examine the prudence of various Test Year expense accounts, particularly those that exhibit unusually large increases since HECO's 2011 test year rate case.

Furthermore, as noted in Section II.B.4, supra, the commission is ordering an adjustment in interim rates to reflect concerns regarding yet unsupported increases in plant additions. The commission intends to further review the prudence of HECO's baseline plant additions and plant to be allowed in rate base, which will ultimately be determined in the Final Decision and Order.

E.

Acceptance Or Non-Acceptance

According to the Settlement:

> As a result of this settlement, the Parties: 1) agree that the written testimonies (and exhibits, workpapers, updates, responses to information requests and supplemental information related to such testimonies and updates) of all witnesses on the settled issues in this docket may be submitted without the witnesses appearing at an evidentiary hearing, and 2) acknowledge that all identified witnesses are subject to call at the discretion of the Commission, and witnesses called by the Commission shall be subject to cross-examination upon any testimony provided at the call of the Commission. The Parties also agree to waive

> their rights to (a) present further evidence on the settled issues, except as provided herein and (b) conduct cross-examination of the witnesses who are not testifying on the contested issues. This waiver shall also not apply where a Party deems it to be necessary to respond to evidence or argument resulting from the examination of witnesses or questions asked by the Commission.[121]
>
> . . . .
>
> If the Commission makes any material adjustment to the interim revenue requirement included in the Statement of Probable Entitlement (relating to agreements set forth in the Stipulated Settlement), or indicates in the interim order that the Commission may consider material adjustments in its final decision, or issues a final decision and order that makes a material adjustment to the Stipulated Settlement, then the Company and the Consumer Advocate reserve their rights to an evidentiary hearing with respect to such adjustment.[122]

As discussed above, the commission is ordering a number of adjustments to the Settlement which will affect the Parties' proposed Statements of Probable Entitlement. In addition, the commission has identified a number of issues it intends to examine in preparation for the Final Decision and Order which may result in a "material" adjustment to the Settlement.[123]

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[121]Settlement at 2 (footnotes omitted).

[122]Settlement at 3 (footnote omitted).

[123]Under the terms of the Settlement, whether a term is "material" is left to the discretion the Parties. Settlement at 3 n.5.

Accordingly, within ten (10) days of the date of this Interim Decision and Order, HECO and the Consumer Advocate shall notify the commission whether they wish to withdraw from the Settlement and, if so: (1) the specific issue(s) that the requesting Party intends to address during the post-Interim Decision and Order phase of this proceeding; and (2) whether the requesting Party wishes to waive its right to an evidentiary hearing on this issue(s). Depending on the responses from the Parties, the commission may modify the procedural schedule governing the remainder of this proceeding.

F.

Refund

As provided by HRS § 269-16(d), HECO 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 increase.

III.

ORDERS

THE COMMISSION ORDERS:

1. The commission approves interim rate relief for HECO, as set forth in HECO's Statement of Probable Entitlement,

filed November 17, 2017, with the exception of the items and adjustments discussed herein in Section II.B.

2. For purposes of interim relief, HECO shall file revised schedules with the commission, together with written explanations and supporting exhibits explaining the amounts removed, and any other corresponding adjustments made to the schedules due to the commission-proscribed adjustments set forth in this Interim Decision and Order. The Consumer Advocate may file comments on HECO's revised schedules within five (5) days of the date of HECO's filing of its revised schedules, and any accompanying written explanations and supporting exhibits.

3. Within ten (10) days of the date of this Interim Decision and Order, the Consumer Advocate and HECO are instructed to submit a filing notifying the commission whether they wish to withdraw from the Settlement and, if so: (1) the specific issue(s) that the requesting Party intends to address during the post-Interim Decision and Order phase of this proceeding; and (2) whether the requesting Party wishes to waive its right to an evidentiary hearing on this issue(s). Depending on the responses from the Parties, the commission may modify the procedural schedule governing the remainder of this proceeding.

4. Upon 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 HECO's ratepayers, together with interest, as provided in HRS § 269-16(d).

DONE at Honolulu, Hawaii DEC 15 2017.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By ______________________
Randall Y. Iwase, Chair

By ______________________
Lorraine H. Akiba, Commissioner

By ______________________
James P. Griffin, Commissioner

APPROVED AS TO FORM:

____
Mark Kaetsu
Commission Counsel

2016-0328.ncm

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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