

In the Matter of the Application of)
HAWAI`I ELECTRIC LIGHT COMPANY,)
INC.)
For Approval of a General Rate)
Increase and Revised Rate Schedules)
and Rules.)

INTERIM DECISION AND ORDER NO. 36761

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PUBLIC UTILITIES
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TABLE OF CONTENTS

I.	BACKGROUND	7
A.	Docket No. 2017-0122	7
B.	HELCO's Application	8
C.	Public Hearings	14
D.	Procedural Background	14
E.	Partial Settlement	15
F.	HELCO's Statement of Probable Entitlement	17
G.	Consumer Advocate's Statement of Probable Entitlement	20
II.	DISCUSSION	21
A.	Interim Rates	23
	1. ROE, Total Equity Ratio, and State ITC	23
	2. Non-Fuel-and-Purchased-Power O&M Expenses	26
B.	Interim Rate Design	35
C.	Addressing Other Matters	38
	1. ECRC Changes	39
	2. RBA Monthly Allocation Factors	44
	3. RBA Rate Adjustment	45
D.	Deferred Matters	48
E.	Refund	51

III.	FINDINGS OF FACT AND CONCLUSIONS OF LAW	52
IV.	ORDERS	54

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)	
HAWAI'I ELECTRIC LIGHT COMPANY,)	Docket No. 2018-0368
INC.)	
)	Interim Decision and
For Approval of a General Rate)	Order No. 36761
Increase and Revised Rate Schedules)	
and Rules.)	
_____)	

INTERIM DECISION AND ORDER

On June 29, 2018, in HELCO's¹ rate case for the 2016 test year, the Public Utilities Commission ("commission") approved a total final revenue amount of \$292,246,000.² Since that time,

¹The Parties are HAWAI'I ELECTRIC LIGHT COMPANY, INC. ("HELCO") and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"), an ex officio party, pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 16-601-62(a).

Pursuant to Order No. 36307, filed May 9, 2019, the Participants in this proceeding are Hawaii PV Coalition ("HPVC"), Blue Planet Foundation ("Blue Planet"), and County of Hawaii ("County").

²In re Hawaii Elec. Light Co., Inc., Docket No. 2015-0170, Final Decision and Order No. 35559, filed June 29, 2018 ("Final Decision and Order No. 35559"), at 1. This total revenue amount excludes the \$1,587,000 downward adjustment associated with the Tax Act Implementation Lag Adjustment. See Order No. 36705, "Allowing [HELCO's] Transmittal No. 19-04 to Take Effect," filed October 25, 2019 (allowing HELCO's Transmittal No. 19-04 to take effect from November 1, 2019).

HELCO's allowed revenues have increased by approximately \$94,500,000,³ due in large part to an approximate \$75,716,000 increase in revenues from the Energy Cost Recovery Clause ("ECRC") and Purchased Power Adjustment Clause ("PPAC") that allows HELCO to automatically recover its fuel and purchased power expenses.⁴

This rate case concerns HELCO's request for an additional increase to its revenues for the 2019 test year ("2019 Test Year"). In its Application, HELCO requests a further increase in revenues in addition to the \$94,500,000 increase it is currently receiving.⁵

³See "Letter From: J. Viola To: Commission Re: Docket No. 2018-0368 - [HELCO] 2019 Test Year Rate Case; [HELCO's] Statement of Probable Entitlement," filed October 1, 2019 ("HELCO's Statement of Probable Entitlement"), Attachment 1 at 1 (current effective revenues of \$386,746,000); Final Decision and Order No. 35559 at 1. Expressed as a mathematical equation: $\$386,746,000 - \$292,246,000 = \$94,500,000$ increase in revenues since June 29, 2018.

⁴Other components that comprise the total \$94,500,000 increase include a \$8,071,000 increase in revenue taxes associated with electric revenue, \$7,055,000 increase from the Revenue Adjustment Mechanism ("RAM"), and \$3,658,000 increase in other operating revenues. See HELCO's Statement of Probable Entitlement, Attachment 1 at 1 (using (1) amounts for other operating revenues, and fuel and purchased power expenses, and (2) multiplying the difference between base revenue and other operating revenue amounts at current effective rates by the 8.885% revenue tax rate), Attachment 9C at 2 (using column h revenue tax amount for electric revenue in Docket No. 2015-0170); Final Decision and Order No. 35559, Exhibit A at 1 (using amounts for other operating revenues and fuel and purchased power expenses).

⁵"Application of [HELCO]; Direct Testimonies and Exhibits, Books 1-9; Workpapers in Support of Direct Testimonies, Books 1-6; Verification; and Certificate of Service," filed

After filing its Application, HELCO and the Consumer Advocate submitted their Partial Settlement,⁶ wherein the Parties agreed to settle most outstanding issues in this proceeding. As a result, for purposes of setting interim rates, HELCO requests a net interim increase in revenues of \$2,791,000,⁷ while the Consumer Advocate asserts that the commission should instead approve an interim decrease in revenues of \$2,912,000.⁸

By this Interim Decision and Order, the commission (1) denies HELCO's request for an interim increase in revenues of \$2,791,000, and (2) instead approves an interim adjustment to

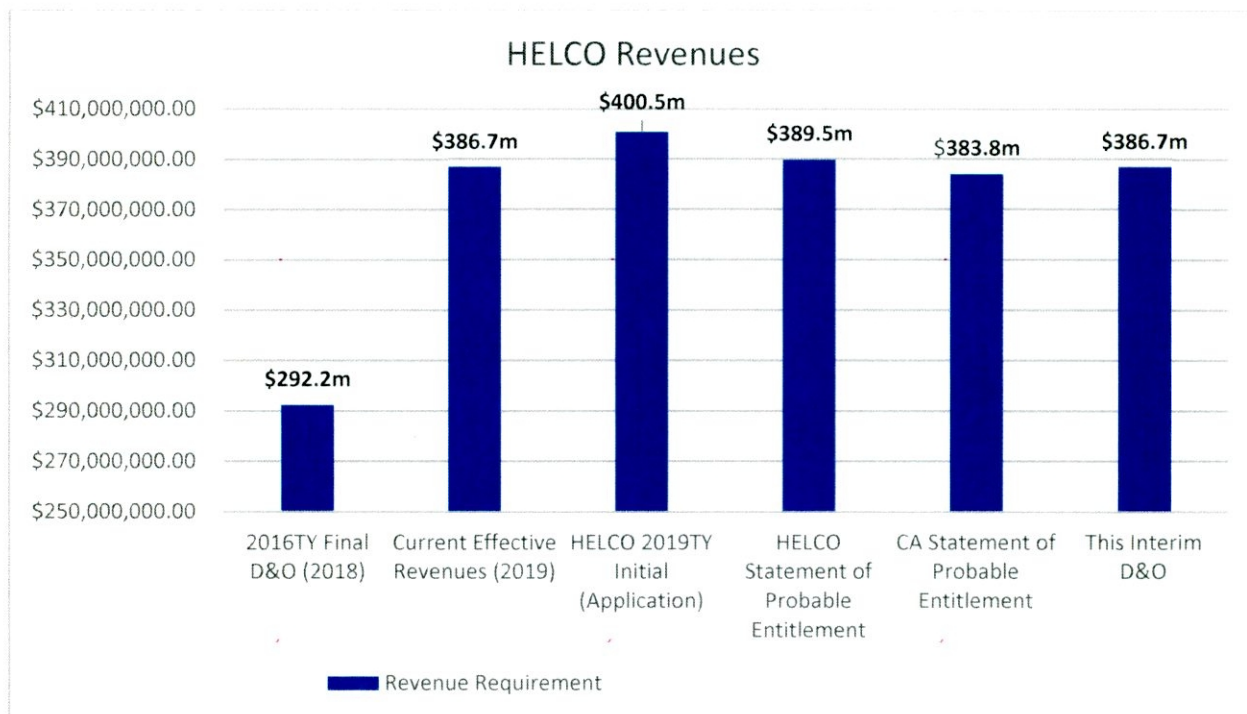
December 14, 2018 ("Application"), at 11. The commission notes that HELCO's Application assumed a 2019 RAM revenue increase of \$10,279,000. Application, Direct Testimonies and Exhibits, Book 1, HELCO-451 at 2, HELCO-452 at 5; Application, Direct Testimonies and Exhibits, Book 7, HELCO-2013 at 1. However, the actual approved 2019 RAM revenue increase is \$7,670,000. Order No. 36336, "(1) Approving HELCO and MECO Tariff Transmittals, as amended; and (2) Approving HECO Tariff Transmittal, Scenario #4, as amended," filed May 29, 2019, (approving HELCO's Transmittal No. 19-02, as amended by the Stipulated Revision).

⁶"Joint Letter From: J. Viola and Consumer Advocate To: Commission Re: Docket No. 2018-0368 - [HELCO] 2019 Test Year Rate Case; Parties' Stipulated Partial Settlement Letter," filed September 24, 2019 ("Partial Settlement").

⁷HELCO's Statement of Probable Entitlement, Attachment 1 at 1.

⁸"Letter From: Consumer Advocate To: Commission Re: Docket No. 2018-0368 - In the Matter of the Application of [HELCO] For Approval of a General Rate Increase and Revised Rate Schedules and Rules - Statement of Probable Entitlement," filed October 1, 2019, ("CA's Statement of Probable Entitlement" or "Consumer Advocate's Statement of Probable Entitlement"), Attachment 1 at 1.

revenues that will be set at current effective revenues, resulting in a zero increase in rates. In other words, the total interim revenues collected from HELCO's customers will remain the same as current effective revenues (\$386,746,000),⁹ illustrated by the following chart:¹⁰



⁹"Current effective revenues" refers to the sum of base revenues, revenues from the ECRC, revenues from the PPAC, revenues from the RAM and Revenue Balancing Account ("RBA"), and other operating revenues.

¹⁰For purposes of this illustration only, the commission assumes that HELCO's Application would have requested a \$13,709,000 increase in revenues over current effective revenues for the 2019 Test Year with a lower RAM revenue increase of \$7,670,000. HELCO's requested \$13,709,000 increase in revenues over current effective revenues for the 2019 Test Year assumed a RAM revenue increase of \$10,279,000. Application at 11; Application, Direct Testimonies and Exhibits, Book 1, HELCO-451 at 2, HELCO-452 at 5; Application, Direct Testimonies and Exhibits, Book 7, HELCO-2013 at 1.

In setting interim revenues at current effective revenues, the commission accepts:

1. The Partial Settlement between the Parties, subject to the modifications described herein;
2. HELCO's proposed ROE of 9.50%;
3. HELCO's proposed total equity ratio of 58.00% (consisting of the sum of 1.17% preferred stock and 56.83% common equity); and
4. The Consumer Advocate's proposed ten-year amortization period for the State investment tax credit ("State ITC").

However:

1. The commission finds that HELCO has not met its burden of proving that it is probably entitled to an increase in revenues on an interim basis that is in addition to current effective revenues.
2. The commission declines to accept the Parties' stipulation on HELCO's proposed changes to the application of the RBA Rate Adjustment from a kilowatt-hour ("kWh") basis to a net-of-base-bill basis; however, following further deliberation, the commission may do so in its final decision.
3. The commission also declines to implement the Parties' proposed method of allocating the interim adjustment as an equal percentage of base revenues for each rate class; however,

the commission may consider the Parties' proposed implementation method for final rates pending further examination.

4. The commission also declines to accept, at this time, the Parties agreed to fossil fuel cost risk sharing of 2% of the risk of the change in fossil fuel prices, with an annual exposure capped at +/- \$600,000; however, the commission may accept the Parties' settlement on this issue in the final decision.

5. The commission acknowledges that ROE, total equity ratio, and the amortization period for the State ITC (along with the annual target heat rate adjustment) continue to be disputed issues between the Parties. As such, the commission will continue to consider these issues for its final decision.

According to the Partial Settlement, if the commission "does not issue an order adopting all material terms of the [] Partial Settlement or makes material adjustments" thereto, any Party may withdraw from the stipulation without prejudice, may pursue their respective positions on HELCO's Application, and do not waive their right to an evidentiary hearing.¹¹ The Partial Settlement also states that if the commission "indicates in the interim order that [it] may consider material adjustments in its final decision," HELCO and the Consumer Advocate

¹¹Partial Settlement at 1.

reserve their rights to an evidentiary hearing with respect to such adjustments.¹²

As such, within ten (10) days of the date of this Interim Decision and Order, HELCO and the Consumer Advocate shall submit a filing with the commission indicating whether they wish to withdraw from the Partial 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 the issue(s). Depending on the Parties' responses, the commission may modify the procedural schedule governing the remainder of this proceeding, which may include further briefing from the Parties and Participants.

I.

BACKGROUND

A.

Docket No. 2017-0122

Docket No. 2017-0122 concerns HELCO's request for approval of, among other things, its Amended and Restated Power Purchase Agreement ("A&R PPA") with Hu Honua Bioenergy, LLC ("Hu Honua"). On June 20, 2019, the commission filed

¹²Partial Settlement at 3.

Order No. 36382 that reopened Docket No. 2017-0122 pursuant to the Hawaii Supreme Court's opinion in In re Hawaii Elec. Light Co., Inc., 145 Hawaii 1, 445 P.3d 673 (2019). Together with Order No. 36539, "Adopting a Procedural Order," filed September 25, 2019, HELCO's request for approval of its A&R PPA with Hu Honua remains an ongoing proceeding before the commission.

B.

HELCO's Application

HELCO provides electric utility service to the island of Hawaii. On December 14, 2018, HELCO filed its Application for approval of an increase to its base revenues for the Test Year, and revised rate schedules and rules. More specifically, HELCO requested an increase of \$13,709,000 (or 3.52%) over revenues at current effective rates based on a revenue requirement of \$403,042,000 for the Test Year.¹³ The commission notes, however, that at the time HELCO filed its Application, HELCO assumed a 2019 RAM revenue increase of \$10,279,000¹⁴ - the actual approved

¹³Application at 11; see HELCO Response to PUC-HELCO-IR-23, filed June 14, 2019 (confirming that HELCO is not requesting a revenue increase or revenue requirement based on a scenario under which Hu Honua is an independent power provider to HELCO during the Test Year).

¹⁴Application, Direct Testimonies and Exhibits, Book 1, HELCO-451 at 2, HELCO-452 at 5; Application, Direct Testimonies and Exhibits, Book 7, HELCO-2013 at 1.

2019 RAM revenue increase is \$7,670,000.¹⁵ HELCO's requested revenue requirement of \$403,042,000 for the 2019 Test Year is based on the higher \$10,279,000 RAM revenue amount.

HELCO states this revenue requirement is based on an 8.30% rate of return ("ROR") on HELCO's average depreciated 2019 Test Year rate base ("average rate base") of \$540,519,000, which incorporates a ROE of 10.50% and a combined common and preferred equity ratio in its capital structure of 58.08%, as follows:¹⁶

<u>Capital Structure Components</u>	<u>Weight</u>	<u>Cost</u>	<u>Weighted Cost</u>
Short-Term Debt	0.61%	3.75%	0.02%
Long-Term Debt	39.65%	5.27%	2.09%
Hybrid Securities	1.66%	7.13%	0.12%
Preferred Stock	1.17%	8.12%	0.09%
Common Equity	56.91%	10.50%	5.98%
HELCO's ROR on Rate Base			8.30%

Noting that its last general rate case for the 2016 test year resulted in "virtually no net change to customer rates overall, in part due to the pass through of savings from the

¹⁵Order No. 36336, "(1) Approving HELCO and MECO Tariff Transmittals, as amended; and (2) Approving HECO Tariff Transmittal, Scenario #4, as amended," filed May 29, 2019, (approving HELCO's Transmittal No. 19-02, as amended by the Stipulated Revision).

¹⁶Application at 11, Direct Testimonies and Exhibits, Book 1, HELCO T-1 at 30, Book 7, HELCO T-22 at 59 & HELCO-2201, Book 9, HELCO-2403 at 1.

2017 federal tax law changes,"¹⁷ HELCO asserts that its increase in rates is necessary to recover certain cost increases that it sustained since the 2016 test year that are not recoverable through mechanisms like the RAM or ECRC and can only be recovered through a rate case, and to recover costs that HELCO has a need to incur during the period that rates resulting from this rate case are in effect.¹⁸ HELCO asserts that these cost increases are needed to maintain its quality of electrical service to its customers, improve customer service, and achieve State energy policy goals.¹⁹

HELCO requests that the general rate increase and revisions to its rate schedules be granted in the following steps: (1) an interim increase equal to the increase in rates to which the commission determines HELCO is "probably entitled" based on the evidentiary record before the commission, in accordance with HRS § 269-16(d); and (2) a final increase when the commission issues its final decision to provide for the amount of the total requested revenue increase not already included in the interim increase.²⁰ HELCO states that, "[c]onsistent with the ECRC tariffs

¹⁷Application, Direct Testimonies and Exhibits, Book 1, HELCO T-1 at 28.

¹⁸Application, Direct Testimonies and Exhibits, Book 9, HELCO T-24 at 3.

¹⁹Application, Direct Testimonies and Exhibits, Book 9, HELCO T-24 at 3; see id., Book 1, HELCO T-1 at 26-29.

²⁰Application at 13.

filed in the [HELCO] 2016 test year rate case, [HELCO] has removed the recovery of fuel and purchased energy expenses from the base rates proposed for the 2019 test year, with recovery of these costs through the ECRC."²¹ HELCO further states it will "continue to recover non-energy purchased power expenses through the PPAC."²²

As to the requested interim increase:

[HELCO] requests that the Interim Increase implemented prior to the final step be structured as surcharges for the various classes based on a percentage of the customer's base revenue charges (i.e., exclusive of the Energy Cost Adjustment charge, Purchased Power Adjustment charges, the RBA rate adjustment, and other surcharges). The amount of the estimated 2019 test year RAM revenues for each rate class should be included in the total effective interim increase to recognize that the RAM Revenue Adjustment portion of the RBA Rate Adjustment terminates upon implementation of an interim rate increase for a test year that is the same as the revenue year that is the basis for the RAM Revenue Adjustment, according to the RAM Provision tariff. The total effective interim increase is divided by the estimate of 2019 test year base revenues for each rate class to determine the interim rate increase percentage to apply to each rate class's base revenues.²³

²¹Application at 8.

²²Application at 8.

²³Application at 14.

Briefly summarized, in addition to its requested general rate increase, HELCO requests the following modifications be made:

1. Modify the ECRC tariff by (a) revising the target heat rates for industrial fuel oil and diesel fuel, (b) streamlining tariff language relating to triggers for the redetermination of target heat rates and deadbands and implement fuel unbundling, as proposed in Docket No. 2015-0170, and (c) updating non-adjustable component revenues based on Test Year expenses.²⁴

2. Change the monthly allocation factors applicable to target revenue and the basis for the monthly allocation factors in the RBA to be based on the days of the month and change the RBA Rate Adjustment to be non-bypassable.²⁵

3. Exclude contributions in aid of construction ("CIAC") associated with projects included within construction work in progress ("CWIP") from rate base until the projects are considered plant in service.²⁶

4. Account for developer advances in the rate base RAM filings in a manner consistent with the way CIAC had been treated

²⁴Application at 15.

²⁵Application at 16.

²⁶Application at 16-17.

when the rate base RAM was originally developed and revise the RAM tariff sheets to reflect this change.²⁷

5. Increase the minimum customer deposit threshold to \$50.00, reduce the interest rate on customer deposits from 6% per annum to 2% per annum, modify HELCO Tariff Rule No. 6 as identified in HELCO-108, and specifically authorize deviation from General Order No. 7 ("G.O. 7"), paragraphs 4.2.c.1 and 4.2.c.2.a, pursuant to G.O. 7, paragraph 1.2.e, in order to make changes to customer deposits and the interest rate paid on customer deposits.²⁸

HELCO's Application requests that the interim increase include approval of its proposed modifications to (1) the monthly allocation factors, (2) reducing the interest on customer deposits from 6% per annum to 2% per annum, and (3) the target heat rates and non-adjustable component revenues in the ECRC.²⁹ HELCO requests that all other rate design and rule changes be implemented when the final increase is implemented.³⁰

²⁷Application at 17.

²⁸Application at 23.

²⁹Application at 14, 23.

³⁰Application at 14.

C.

Public Hearings

Public hearings were held by the commission on April 11 (Kona, Hawaii) and April 12, 2019 (Hilo, Hawaii), pursuant to HRS §§ 269-16 and 269-12. Representatives from HELCO and the Consumer Advocate appeared and testified at both public hearings, members of the public attended and testified at the Kona public hearing, and a member of the public attended the Hilo public hearing.

The commission received written comments from the public via electronic and postal mail. In general, the testimony at the Kona public hearing and written comments expressed concerns with or opposition to the increase in rates proposed by HELCO.

D.

Procedural Background

On July 25, 2019, the Consumer Advocate filed its direct testimonies, exhibits, and work papers.³¹ The Participants filed their direct testimonies on the same day.

On September 24, 2019, HELCO and the Consumer Advocate filed their Partial Settlement.

³¹ "[Consumer Advocate's] Direct Testimonies, Exhibits, and Workpapers," filed July 25, 2019 ("CA's Direct Testimonies").

On October 1, 2019, HELCO and the Consumer Advocate filed separate Statements of Probable Entitlement.³²

On October 9, 2019, HELCO filed its Rebuttal Testimonies.³³

E.

Partial Settlement

On September 24, 2019, the Parties filed their Partial Settlement, which effectively represents the Parties' settlement of all issues in this proceeding except for the following issues:

1. Rate of return on common equity;
2. Common equity ratio in HELCO's capital structure;
3. The amortization period for the State investment tax credit ("State ITC"); and
4. The annual target heat rate adjustment (symmetric or asymmetric).³⁴

³²HELCO's Statement of Probable Entitlement; "Letter From: Consumer Advocate To: Commission Re: Docket No. 2018-0368 - In the Matter of the Application of [HELCO] For Approval of a General Rate Increase and Revised Rate Schedules and Rules - Statement of Probable Entitlement," filed October 1, 2019, ("CA's Statement of Probable Entitlement" or "Consumer Advocate's Statement of Probable Entitlement").

³³"Rebuttal Testimonies; Exhibits and Workpapers," filed October 9, 2019 ("Rebuttal Testimonies").

³⁴Partial Settlement at 1.

The differences between the Parties' positions on these disputed issues are summarized on page 5 of the Partial Settlement, as follows:

	HELCO	Consumer Advocate
Return on Common Equity	10.50%	8.75%
Common Equity Ratio	56.83% ³⁵	53.05%
State ITC Amortization period	40 years	10 years
Annual Target Heat Rate Adjustment	Symmetric	Asymmetric

The Parties agree that the decision on whether the annual target heat rate adjustment should be symmetric or asymmetric will not affect the 2019 Test Year revenue requirement.³⁶ According to HELCO, there is an approximate \$10 million revenue requirement separation between the Parties based on their positions on the other disputed issues.³⁷

The Parties further agreed upon a revised electric sales revenue amount at current effective rates of \$382,201,000, which incorporates the updated 2019 RAM revenue decrease from \$10,279,000 to \$7,670,000.³⁸ The revised \$382,201,000

³⁵HELCO states it adjusted its proposed total equity ratio to 58.00% from 58.08% due to the impact of two refinancings that occurred in May and July 2019. Partial Settlement, Exhibit 1 at 99.

³⁶HELCO's Statement of Probable Entitlement at 2.

³⁷Partial Settlement, Exhibit 1 at 5; see HELCO's Statement of Probable Entitlement at 4 (Tables 2 and 3).

³⁸Partial Settlement, Exhibit 1 at 22.

electric sales revenue amount excludes \$4,546,000 in other operating revenues.³⁹

The Parties also agreed upon an interim rate design and to implement certain additional matters relating to the ECRC and RBA at or around the time interim rates are implemented, which are discussed below.

F.

HELCO's Statement of Probable Entitlement

On October 1, 2019, HELCO filed its Statement of Probable Entitlement requesting the commission file this Interim Decision and Order by November 13, 2019, that approves an interim rate increase of \$2,791,000 over revenues at current effective rates, based on a revenue requirement of \$389,538,000, a 9.50% ROE, and a 58.00% total equity ratio.⁴⁰ HELCO further requests that certain

³⁹According to the Partial Settlement, the Parties do not agree on the amount of other operating revenues because this amount is dependent on HELCO's cost of capital, which is currently disputed between the Parties. Partial Settlement, Exhibit 1 at 19, 24. Because, for purposes of probable entitlement, the commission accepts a 9.50% ROE and 58.00% total equity ratio, the commission uses the \$4,546,000 amount for other operating revenues at current effective revenues shown in Attachment 5 of HELCO's Statement of Probable Entitlement. Compare HELCO's Statement of Probable Entitlement, Attachment 5 at 1 (\$4,546,000 in other operating revenues at current effective revenues based on 9.50% ROE and 58.00% total equity ratio), with id., Attachment 3 at 1 (\$4,692,000 in other operating revenues at current effective revenues based on a 10.50% ROE and 58.00% total equity ratio).

⁴⁰HELCO's Statement of Probable Entitlement at 1.

tariff changes, which include its proposed interim increase in rates and RBA and ECRC tariff changes, be made effective on November 21, 2019.⁴¹

Although maintaining its position that ROE should be 10.50% and the total equity ratio 58.00%, HELCO recognizes "the large revenue requirement impact of the difference in the Parties' positions on the cost of capital," and thus requests that the commission "authorize the use of an ROE of 9.50% and a capital structure based on a 58.00% [total] equity ratio to derive the interim revenue increase."⁴² The difference between the Parties' positions on interim revenues are depicted, as follows:⁴³

HELCO Statement of Probable Entitlement

(A) Return on Equity	(B) Equity Percentage of Capital- ization	(C) Composite Cost of Capital	(D) State ITC Amortization Period	(E) Interim Increase over Revenues at Current Effective Rates	(F) Revenue Requirement
9.50%	58.00%	7.52%	40 years	\$2,791,000	\$389,538,000
9.50%	58.00%	7.52%	10 years	\$1,748,000	\$388,495,000
10.50%	58.00%	8.09%	40 years	\$7,133,000	\$394,026,000
10.50%	58.00%	8.09%	10 years	\$6,094,000	\$392,987,000

⁴¹HELCO's Statement of Probable Entitlement at 1.

⁴²HELCO's Statement of Probable Entitlement at 3 (emphasis omitted).

⁴³HELCO's Statement of Probable Entitlement at 4.

Consumer Advocate Position

(A) Return on Equity	(B) Equity Percentage of Capital- ization	(C) Composite Cost of Capital	(D) State ITC Amortization Period	(E) Interim Increase over Revenues at Current Effective Rates	(F) Revenue Requirement
8.75%	54.22%	6.98%	10 years	-\$2,786,000	\$383,806,000

HELCO asserts that a 9.50% ROE and 58.00% total equity ratio is a "reasonable approach for purposes of the interim award in that it is consistent with the existing ROE and capital structure for [HELCO], as well as with the most recent ROE and capital structure approved for another of the Hawaiian Electric Companies approximately six months ago."⁴⁴ HELCO further asserts that its proposed ROE and capital structure for interim rates is reasonable because it represents "a rough middle ground between [HELCO's] and Consumer Advocate's positions on the issues[,] and the commission should use the currently effective State ITC amortization period of forty (40) years."⁴⁵

HELCO asserts that use of the Consumer Advocate's recommended cost of capital would "adversely impact the financial integrity of [HELCO]" and, if the final decision requires a revenue change that is higher than the Consumer Advocate's recommended interim revenue decrease, HELCO "will never be able to recoup the

⁴⁴HELCO's Statement of Probable Entitlement at 3.

⁴⁵HELCO's Statement of Probable Entitlement at 3.

revenue loss during the period when interim rates are in effect"
- whereas, "if the interim relief is higher than the final rate relief, [HELCO] will refund the difference with interest in accordance with HRS § 269-16(d)." ⁴⁶

HELCO requests that certain tariff changes, which include its proposed interim increase in rates and RBA and ECRC tariff changes, be made effective on November 21, 2019. ⁴⁷ HELCO requests that its proposed change to the RBA monthly allocation factors be made effective on January 1, 2020. ⁴⁸

G.

Consumer Advocate's Statement of Probable Entitlement

On October 1, 2019, the Consumer Advocate filed its Statement of Probable Entitlement. In addition to its proposed 8.75% ROE and 53.05% common equity capitalization, the Consumer Advocate asserts that the ten-year amortization period for the State ITC is reasonable because, in both Docket Nos. 2016-0328 and 2017-0150, HECO's rate case for the 2017 test year and MECO's rate case for the 2018 test year, respectively, the commission found the Parties' stipulation

⁴⁶HELCO's Statement of Probable Entitlement at 4.

⁴⁷HELCO's Statement of Probable Entitlement at 1.

⁴⁸HELCO's Statement of Probable Entitlement at 1, 6.

to the ten-year amortization period to be reasonable.⁴⁹ The Consumer Advocate asserts that, if the commission were to adopt its positions in connection with interim rates, then the "estimated interim modification to current rates should approximate a \$2.9 million decrease, after recognizing the lower RAM increase approved by the [c]ommission in decoupling Transmittal 19-02, than was assumed in the Company's rate case direct testimony."⁵⁰

II.

DISCUSSION

Pursuant to HRS § 269-16(d), "[t]he commission shall make every effort to complete its deliberations and issue its decision as expeditiously as possible and before nine months from the date the public utility filed its completed application[.]" However,

if the commission has not issued its final decision on a public utility's rate application within the nine-month period stated in [HRS § 269-16(d)], the commission, within one month after the expiration of the nine-month period, shall render an interim decision allowing the increase in rates, fares and charges, if any, to which the

⁴⁹CA's Statement of Probable Entitlement at 2; see In re Maui Elec. Co., Ltd., Docket No. 2017-0150, Decision and Order No. 36219, filed March 18, 2019, at 161-62; In re Hawaiian Elec. Co., Inc., Docket No. 2016-0328, Final Decision and Order No. 35545, filed June 22, 2018, at 135-36.

⁵⁰CA's Statement of Probable Entitlement at 2.

commission, based on the evidentiary record before it, believes the public utility is probably entitled. The commission may postpone its interim rate decision for [an additional] thirty days if the commission considers the evidentiary hearings incomplete.⁵¹

Through an interim decision, the commission may allow an increase in a public utility's rates and charges if, based on the evidentiary record, it believes the public utility is "probably entitled" to such interim relief.⁵² "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."⁵³ An "agreement between the parties in a rate case cannot bind the [commission], as the [commission] has an independent obligation to set fair and just rates and arrive at its own conclusions."⁵⁴

Moreover:

[O]ur decision in this docket should be consistent with precedent and that computational error committed by the parties should be accounted for. However, in deciding

⁵¹HRS § 269-16(d).

⁵²HRS § 269-16(d); In re The Gas Co., LLC dba Hawaii Gas, Docket No. 2017-0105, Interim Decision and Order No. 35550, filed June 27, 2018, at 49.

⁵³In re Hawaii Elec. Light Co., Inc., 60 Haw. 625, 637, 594 P.2d 612, 621 (1979).

⁵⁴In re Hawaiian Elec. Co., Inc., 5 Haw. App. 445, 447, 698 P.2d 304, 307 (1985).

interim rate relief, the commission's scrutiny of both the record and the discourse during the evidentiary hearings is a search for showings of probable entitlement. This search is necessarily quick, unlike the careful deliberation the commission consistently accords issues in rendering final decisions. In deciding interim rate relief, the commission must often postpone determinations of reasonableness with respect to certain unresolved matters. Otherwise, the speed with which [the public utility] is given interim rate relief would be affected.⁵⁵

A.

Interim Rates

1.

ROE, Total Equity Ratio, and State ITC

With regard to the disputed issues,⁵⁶ based on the record and the Parties' positions on these issues, the commission applies the ten-year amortization period for the State ITC for purposes of setting interim rates to be consistent with the amortization

⁵⁵In re Maui Elec. Co., Ltd., Docket No. 2009-0163, Interim Decision and Order, filed July 27, 2010, at 11-12 n.18 (citations omitted, emphasis added).

⁵⁶Because the Parties agree that the issue of whether the annual target heat rate adjustment should be symmetric or asymmetric will not affect the 2019 Test Year revenue requirement, the commission will address this issue in its final decision.

period in effect for HECO (Docket No. 2016-0328) and MECO (Docket No. 2017-0150).⁵⁷

For purposes of setting interim rates, the commission also applies a ROE of 9.50% and total equity ratio of 58.00% (1.17% preferred stock⁵⁸ plus 56.83% common equity), resulting in a 7.52% ROR,⁵⁹ because these amounts are consistent with the ROE and total equity ratio recently approved in Docket No. 2015-0170.⁶⁰

⁵⁷See In re Maui Elec. Co., Ltd., Docket No. 2017-0150, Decision and Order No. 36219, filed March 18, 2019, at 161-62; In re Hawaiian Elec. Co., Inc., Docket No. 2016-0328, Final Decision and Order No. 35545, filed June 22, 2018, at 135-36.

⁵⁸Both HELCO and the Consumer Advocate agreed to a 1.17% preferred stock ratio. Partial Settlement, Exhibit 1 at 99-100.

⁵⁹The specific breakdown of the weights and costs for the various capital components used to compute this ROR is identical to the one presented in Table 1 in HELCO's Statement of Probable Entitlement. See HELCO's Statement of Probable Entitlement at 3.

⁶⁰In re Hawaii Elec. Light Co., Inc., Docket No. 2015-0170, Final Decision and Order No. 35559, filed June 29, 2018 ("Final Decision and Order No. 35559"), at 85; see id., Interim Decision and Order No. 34766, filed August 21, 2017, at 22 (observing that a 9.50% ROE is consistent with recent rate cases for the Hawaiian Electric Companies); In re Hawaiian Elec. Co., Inc., Docket No. 2010-0080, Interim Decision and Order filed July 22, 2011, at 36 (finding stipulated ROR reasonable, which incorporated a ROE of 10.00%, and noted that the 10.00% ROE was found to be fair and reasonable in HECO's prior rate case for the 2009 test year).

Although the commission accepts HELCO's proposed ROE of 9.50% and a total equity ratio of 58.00% for purposes of setting interim rates, the commission will continue to examine HELCO's ROE and equity ratio when setting final rates.

With regard to ROE in particular, although the commission does not, at this time, make a downward adjustment to HELCO's currently approved 9.50% ROE, the commission may make an appropriate downward adjustment to HELCO's 9.50% ROE in its final decision after review of the totality of the evidence in the record, as well as HELCO's performance in other proceedings pending before this commission.⁶¹

Because the commission accepts, for purposes of this Interim Decision and Order, HELCO's proposed 9.50% ROE and 58.00% total equity ratio, as well as the Consumer Advocate's proposed ten-year amortization period for the State ITC, HELCO would likely be probably entitled to a net \$1,748,000 interim increase in revenues over current effective revenues, as reflected by

⁶¹See In re Hawaii Elec. Light Co., Inc., Docket No. 2017-0150, Interim Decision and Order No. 34766, filed August 21, 2017, at 23-26. These proceedings include Docket Nos. 2019-0323 (Distributed Energy Resources), 2018-0165 (Integrated Grid Planning), 2018-0163 (Microgrid Services Tariff), 2017-0352 (Phase 2 of the Hawaiian Electric Companies' procurement of dispatchable firm generation and new renewable energy generation), 2015-0389 (Community-Based Renewable Energy),

Attachment 5 of HELCO's Statement of Probable Entitlement.⁶² However, as discussed below, the commission finds that HELCO has not satisfied its burden to prove that it is probably entitled to an interim increase in revenues over current effective revenues.

2.

Non-Fuel-and-Purchased-Power O&M Expenses

The commission is vested with general supervision over all public utilities and has the authority to approve just and reasonable rates to be charged to the public utility's customers.⁶³ Pursuant to HRS § 269-16(d), the commission "shall render an interim decision allowing the increase in rates, fares and charges, if any, to which the commission, based on the evidentiary record before it, believes the public utility is probably entitled" "if the commission has not issued its final decision on a public utility's rate application within the nine-month period stated in this section[.]"⁶⁴

⁶²See HELCO's Statement of Probable Entitlement, Attachment 5 at 1.

⁶³See HRS §§ 269-6, 269-16.

⁶⁴HRS § 269-16(d) (emphasis added).

As the applicant, HELCO has the burden to prove that it is probably entitled to an interim increase in rates.⁶⁵ This burden of proof includes both the burden of producing evidence and the burden of persuasion.⁶⁶ Based on this record, the commission is not convinced that HELCO is probably entitled to an interim increase in rates beyond current effective rates.⁶⁷ In particular, the commission is not convinced at this time that HELCO has demonstrably shown it has undertaken reasonable efforts since HELCO's last general rate case to operate more efficiently and control its non-fuel-and-purchased-power O&M expenses.

The commission has long expressed its concern about the Hawaiian Electric Companies' substantial increases to O&M expenses less fuel and purchased power. For example, in the commission's Performance Based Ratemaking ("PBR") proceeding, Docket No. 2018-0088, the commission stated that, under the current regulatory framework the Hawaiian Electric Companies lack strong incentives to control costs, and observed that Hawaii has the

⁶⁵HRS § 91-10(5); In re Hawaii Elec. Light Co., Inc., 60 Haw. at 637, 594 P.2d at 621 ("The general rule is that in requesting rate increases, the burden of proof is on the utility to go forward with the evidence and justify its requested rate increases.").

⁶⁶HRS § 91-10(5).

⁶⁷See In re Puuwaawaa Waterworks, Inc., Docket No. 03-0369, Decision and Order No. 21428, filed October 25, 2004; In re GTE Hawaiian Tel. Co. Inc., Docket No. 7579, Decision and Order No. 13950, filed June 9, 1995.

highest electricity prices in the nation, which exacerbates the cost of living and imposes a substantial burden on residents and businesses.⁶⁸ To that end, the commission stated that increasing the efficiency of utility operations and investments can reduce costs, and acquiring additional renewable energy can provide significant savings while delivering essential grid services.⁶⁹

Here, HELCO's Application requested a total increase of \$77,729,000 in certain 2019 Test Year O&M expenses, as follows:

Production	\$22,351,000
Transmission	\$5,532,000
Distribution	\$16,633,000
Customer Accounts	\$8,562,000
Customer Service	\$1,738,000
Administrative & General	\$22,913,000 ⁷⁰
Total	\$77,729,000

As settled between the Parties, these O&M expense categories collectively total \$72,824,000, as follows:

Production	\$20,502,000
Transmission	\$5,452,000
Distribution	\$16,608,000
Customer Accounts	\$8,194,000
Customer Service	\$1,570,000
Administrative & General	\$20,498,000 ⁷¹
Total	\$72,824,000

⁶⁸In re Pub. Utils Comm'n, Docket No. 2018-0088, Decision and Order No. 36326, filed May 23, 2019, at 3.

⁶⁹In re Pub. Utils Comm'n, Docket No. 2018-0088, Decision and Order No. 36326, filed May 23, 2019, at 4.

⁷⁰Application, Direct Testimonies and Exhibits, Book 9, HELCO-2403 at 1.

⁷¹HELCO's Statement of Probable Entitlement, Attachment 5 at 1; CA's Statement of Probable Entitlement, Attachment 1 at 1.

Comparatively, in HELCO's prior rate case for the 2016 test year, these O&M expenses collectively totaled \$62,263,000 at approved final rates, as follows:

Production	\$18,451,000
Transmission	\$4,367,000
Distribution	\$12,118,000
Customer Accounts	\$7,736,000
Customer Service	\$1,216,000
Administrative & General	\$18,375,000 ⁷²
Total	\$62,263,000

In other words, the increase to these O&M expenses from the amounts approved in the 2016 test year to the amounts in the Partial Settlement total \$10,561,000, representing an average 17% increase, as follows:

Production	\$2,051,000	11%
Transmission	\$1,085,000	25%
Distribution	\$4,490,000	37%
Customer Accounts	\$458,000	6%
Customer Service	\$354,000	29%
Administrative & General	\$2,123,000	12%
Total	\$10,561,000	17%

HELCO justifies its increase in non-fuel-and-purchased-power O&M expenses by asserting that its "efforts to control and operate efficiently, effectively and with innovation . . . help mitigate cost increases in the Company's test year revenue requirement."⁷³ These cost control efforts are summarized in

⁷²In re Hawaii Elec. Light Co., Inc., Docket No. 2015-0170, Final Decision and Order No. 35559, filed June 29, 2018, Exhibit A at 1.

⁷³Application, Direct Testimonies and Exhibits, Book 1, HELCO T-1 at 25.

HELCO-113, which lists seventy-two O&M cost control efforts and eleven capital cost control measures.⁷⁴

Additionally, in response to PUC-HELCO-IR-10, filed June 21, 2019, HELCO asserts it is reasonable to allow its originally requested 25% increase in these expenses, even though customer count and sales have been less than one-tenth this amount of increase, because (1) "much of [HELCO's] plant investment is fixed" and thus "not closely correlated with changes to customer count and sales[,] yet these same fixed costs, "[o]ver the longer term, . . . can become more variable, as the amount of plant adjusts to longer term trends in customer counts and sales (e.g., through plant retirements and a different pace of plant replacements and additions)"; (2) the Hawaiian Electric Companies are "in a period of transition" and are "incurring costs for various transformational measures such as modernizing the grid," etc.; (3) "over-constraining cost recovery of O&M and capital expenditures, as a way of reducing rates, can result in disincentives to incur the very costs that will enable the reduction in the fuel and purchased power expenses that would benefit customers"; (4) many of the causes resulting in the increases to non-fuel-and-purchased-power O&M expenses approved in the 2016 test year rate case are due to grid modernization,

⁷⁴See Application, Direct Testimonies and Exhibits, Book 1, HELCO-113.

the integration of renewable energy, and other prioritized outcomes adopted by the commission in Decision and Order No. 36326 filed in Docket No. 2018-0088 on May 23, 2019; (5) HELCO is making a "concerted effort to increase efficiency and control costs" and will make "certain downward adjustments to the 2019 test year revenue requirement to reflect expedited benefits realization for the Enterprise Resource Planning/Enterprise Asset Management project"; and (6) there are certain differences between estimated test year amounts and settled amounts in a prior rate case.

HELCO's assertions are not persuasive for the following reasons. First, despite the list of cost control efforts in HELCO-113, the commission is not persuaded at this time that HELCO has undertaken reasonable efforts since HELCO's 2016 test year rate case to operate efficiently and control its non-fuel-and-purchased-power O&M expenses. Of the seventy-two O&M cost control efforts identified by HELCO in HELCO-113, only thirteen, totaling \$183,471 in quantifiable cost savings, are shown to have begun since 2017,⁷⁵ which is dwarfed by the \$10,561,000 total increase in non-fuel-and-purchased-power O&M

⁷⁵The thirteen O&M cost control efforts identified as having begun since 2017 are on lines 3, 6, 28, 29, 30, 51, 53, 55, 68, 69, 70, 71, and 72. Of these O&M cost control efforts, HELCO could only quantify the cost savings associated with the efforts on lines 3, 28, 29, 30, 51, and 53. See Application, Direct Testimonies and Exhibits, Book 1, HELCO-113 at 1-8.

expenses between the 2016 test year approved amounts and the 2019 Test Year amounts agreed upon in the Partial Settlement.

Second, the commission finds that the identified amount of cost savings since 2017 currently overstates HELCO's efforts to control its non-fuel-and-purchased-power O&M expenses because \$92,142 of these quantifiable O&M cost savings are attributable to HELCO's proposed reduction to the interest rate on customer deposits from 6% to 2%,⁷⁶ which appears to no longer be a change that is being pursued in this rate case.⁷⁷ As such, HELCO has managed to identify only \$91,329 in quantifiable O&M cost savings as a result of its cost control efforts since 2017.⁷⁸

Third, HELCO's identification of cost control efforts prior to and including 2016 is unpersuasive in part because HELCO's request for a \$1,748,000 interim increase in revenues over current effective revenues will allow HELCO to recover the entire \$10,561,000 increase in non-fuel-and-purchased-power O&M expenses between the 2016 test year approved amounts and the 2019 Test Year amounts agreed upon in the Partial Settlement.⁷⁹ As such, a more

⁷⁶Application, Direct Testimonies and Exhibits, Book 1, HELCO-113 at 5.

⁷⁷See Partial Settlement, Exhibit 1 at 80-81.

⁷⁸See HELCO's Statement of Probable Entitlement, Attachment 5 at 1.

⁷⁹See HELCO's Statement of Probable Entitlement, Attachment 5 at 1.

reasonable timeframe for purposes of probable entitlement in this Interim Decision and Order is on HELCO's cost control efforts since 2016. Even if, arguendo, HELCO's cost control efforts prior to and including 2016 were relevant to the commission's consideration of probable entitlement, including those O&M expense cost control efforts identified with an "On-Going," blank, or "Prior to creation of" timeframe of implementation in HELCO-113, the commission finds that these cost control efforts total \$2,301,300 in quantifiable cost savings,⁸⁰ which is also dwarfed by the \$10,561,000 total increase in non-fuel-and-purchased-power O&M expenses between the 2016 test year approved amounts and the 2019 Test Year amounts agreed upon in the Partial Settlement.

Fourth, although the commission recognizes that some of HELCO's cost control efforts are not easily quantifiable, HELCO appears to have made no attempt to provide operational metrics against which the commission may reasonably judge the efficacy of HELCO's efforts to control its non-fuel-and-purchased-power O&M expenses. For example, HELCO could show, through a relevant operational metric (e.g., per customer or per MWh sold), the rate of decrease to its

⁸⁰See Application, Direct Testimonies and Exhibits, Book 1, HELCO-113 at 1-8.

non-fuel-and-purchased-power O&M expenses that resulted from its cost control efforts between its 2016 test year and 2019 Test Year.

Finally, as asserted by County,⁸¹ it does not appear from this record that a reasonable effort has been undertaken by HELCO to achieve cost reductions in non-fuel-and-purchased-power O&M expenses in response to increasing expenses relating to grid modernization, the integration of renewable energy, and other commission priorities. Even though HELCO contends it is "making a concerted effort to increase efficiency and control costs,"⁸² non-fuel-and-purchased-power O&M expenses have nonetheless been estimated to increase by an approximate 17% in three years since HELCO's 2016 test year rate case.⁸³

As such, noting that the search for probable entitlement is "necessarily quick, unlike the careful deliberation the commission consistently accords issues in rendering final decisions[,] "⁸⁴ the commission finds that HELCO has not satisfied

⁸¹"[County's] Direct Testimony on [HELCO's Application]," filed July 25, 2019 ("County's Testimony"), at 12-13.

⁸²HELCO's Response to PUC-HELCO-IR-10, filed June 21, 2019, at 7.

⁸³See HELCO's Statement of Probable Entitlement, Attachment 5 at 1; CA's Statement of Probable Entitlement, Attachment 1 at 1; In re Hawaii Elec. Light Co., Inc., Docket No. 2015-0170, Final Decision and Order No. 35559, filed June 29, 2018, Exhibit A at 1.

⁸⁴In re Maui Elec. Co., Ltd., Docket No. 2009-0163, Interim Decision and Order, filed July 27, 2010, at 11-12 n.18.

its burden to prove that it is probably entitled to a \$1,748,000 (or approximate 0.45%) interim increase in revenues over current effective revenues, as reflected by Attachment 5 to HELCO's Statement of Probable Entitlement.⁸⁵

In other words, the commission is not convinced at this time that HELCO has met its burden to prove that these increases in O&M expenses reflect efficient operations or diligent implementation of cost control measures such that HELCO is probably entitled to an interim increase in revenues over current effective revenues. Therefore, the commission (1) denies HELCO's request for an interim increase in revenues of \$1,748,000, and (2) instead approves an interim adjustment to revenues that will be set at current effective revenues, resulting in a zero increase in rates.

B.

Interim Rate Design

Pursuant to the Partial Settlement, the Parties agreed that HELCO would implement an "interim rate increase" on an equal percentage basis across all rate classes via an interim rate adjustment surcharge.⁸⁶ Moreover, as proposed by the Parties,

⁸⁵As calculated from the amounts provided in page 1 of Attachment 5 to HELCO's Statement of Probable Entitlement: $100(\$1,748,000/\$386,746,000) = 0.45\%$

⁸⁶See HELCO's Response to PUC-HELCO-IR-160, filed October 16, 2019, Attachment 1; HELCO's Statement of Probable

implementation of the interim adjustments would be applied to each customer class as an equal percentage of "present base revenues."⁸⁷

As agreed in the Partial Settlement,⁸⁸ and consistent with the RBA Provision Tariff,⁸⁹ in order to recognize the termination of the RAM revenue portion of the effective RBA Rate Adjustment, the interim adjustment includes the amount of the terminating RAM revenues. As discussed above, the commission determines that total interim revenues will remain at the level of current effective revenues. Therefore, the total amount of the interim adjustment shall be equal to the amount of the terminating RAM revenues in the RBA Rate Adjustment.

The Parties' proposed method of allocating the interim adjustment as an equal percentage of base revenues for each rate

Entitlement at 8 & Attachment 8 at 2; CA's Statement of Probable Entitlement at 4; Partial Settlement, Exhibit 1 at 107-08.

⁸⁷See Partial Settlement, Exhibit 1 at 107-08; see also In re Hawaii Elec. Light Co., Inc., Docket No. 2015-0170, Interim Decision and Order No. 34766, filed August 21, 2017, at 28 (accepting the proposed implementation of the interim rate increase over revenues at current effective rates).

⁸⁸Partial Settlement, Exhibit 1 at 107.

⁸⁹HELCO RBA Provision tariff, revised sheet #91C, effective January 1, 2018: "The recovery through the RBA Rate Adjustment of a RAM Revenue Adjustment calculated for a calendar year that is also a rate case test year shall terminate on the effective date of tariff rates that implement a Commission approved base revenue level authorized in the Company's test year rate case."

class would result in a change in the allocation to each rate class of the RAM revenues in current effective rates.⁹⁰ The proposed method differs in several respects from the methods used in previous rate case proceedings and may be considered for implementation of final rates pending further examination.

However, for purposes of implementing the interim rate adjustment, the commission finds it is reasonable to maintain the amount of RAM revenues of each customer class in current effective rates in the interim adjustment for each rate class. In other words, the amount of RAM revenues that are terminating from collection in the RBA Rate Adjustment for each customer class shall equal the amount of revenues in the interim adjustment for each class. The interim adjustment shall be applied as a percentage adjustment to base rates as proposed by the Parties; however, the percentage adjustment for each rate class shall be determined individually for each rate class and applied so that the total RAM revenue for each rate class will remain the same as in current effective rates.

⁹⁰See Partial Settlement, HELCO T-4, Attachment 1 at 3, columns B and B2 (showing the RAM revenue contribution of each rate class to current effective rates); see also HELCO's response to PUC-HELCO-IR-160, filed October 16, 2019, Attachment 1, column H (showing the allocation of RAM revenues for each rate class that would result from the proposed allocation of interim adjustment as an equal percentage of base revenues).

Accordingly, HELCO shall provide an exhibit, in the format of Attachment 8 at 2 of its Statement of Probable Entitlement, as corrected in response to PUC-HELCO-IR-160, filed October 16, 2019, that shows the customer class allocation of the interim adjustment and percentage adjustment to base rates for each class, consistent with the provisions of this Interim Decision and Order, so as to maintain the accrual, recovery, and class allocation of RAM revenues at current effective rates. HELCO shall also submit conforming tariff sheets, for review and subsequent approval by the commission, for the interim rate adjustment surcharge and the RBA Provision tariff to effectuate the provisions of this Decision and Order.

The Consumer Advocate may file comments on HELCO's proposed exhibits and revised version of page 2 of Attachment 8 to HELCO's Statement of Probable Entitlement within five (5) days of the date of HELCO's filing of these documents.

C.

Addressing Other Matters

In the Partial Settlement, the Parties agreed to the following additional matters that HELCO seeks approval and implementation of in connection with its requested interim increase in revenues: (1) HELCO's proposed ECRC changes to the target heat rate and non-adjustable component revenues based on

Test Year expenses; and (2) applying the RBA Rate Adjustment on a non-bypassable percentage-of-base-bill basis.⁹¹

The Parties also agreed to HELCO's proposed changes to the RBA monthly allocation factors, and that these changes should be made effective on January 1, 2020.⁹²

1.

ECRC Changes

As part of the Partial Settlement, the Parties agreed to the following matters in connection with the ECRC:

1. To use HELCO's estimate of target sales heat rates of 14,389 Btu/kWh-sales for Industrial Fuel Oil ("IFO") and 10,580 Btu/kWh-sales for diesel;

2. To retain existing heat rate deadbands of plus or minus 100 Btu/kWh-sales for IFO and plus or minus 200 Btu/kWh-sales for diesel; and

3. To revise the non-adjustable component of the ECRC to be consistent with 2019 Test Year values.⁹³

⁹¹Partial Settlement, Exhibit 1 at 107-08; see CA's Statement of Probable Entitlement at 4 (same).

⁹²Partial Settlement, Exhibit 1 at 107.

⁹³HELCO's Statement of Probable Entitlement at 6; Partial Settlement, Exhibit 1 at 14, 107-08.

HELCO's current target sales heat rate for IFO is 14,569 Btu/kWh-sales, and for diesel is 10,480 Btu/kWh-sales.⁹⁴ HELCO's proposed target sales heat rates for the 2019 Test Year of 14,389 Btu/kWh-sales for IFO and 10,580 Btu/kWh-sales for diesel fuel without Hu Honua based on the results of HELCO's production simulation and projected inputs for the 2019 Test Year.⁹⁵ The Consumer Advocate proposed an IFO target heat rate of 14,290 Btu/kWh-sales and a diesel target heat rate of 10,780 Btu/kWh-sales, which was based on its production simulation.⁹⁶ For purposes of reaching a settlement on this issue, the Parties agreed to use HELCO's proposed target sales heat rates for the 2019 Test Year.⁹⁷ The commission accepts the Parties' stipulation as to HELCO's target sales heat rates for the 2019 Test Year.

⁹⁴In re Hawaii Elec. Light Co., Docket No. 2015-0170, "Letter From: D. Matsuura To: Commission Re: Docket No. 2015-0170 - [HELCO] 2016 Test Year Rate Case; [HELCO] Revised Target Sales Heat Rates," filed January 24, 2019, at 1. IFO is used in HELCO's Hill and Puna Steam Plants, and diesel is used in HELCO's Keahole Power Plant and in combustion turbines and small engines. Application, Direct Testimonies and Exhibits, Book 9, HELCO T-23 at 37.

⁹⁵Partial Settlement, Exhibit 1 at 12-13.

⁹⁶Partial Settlement, Exhibit 1 at 13.

⁹⁷Partial Settlement, Exhibit 1 at 14.

HELCO proposes to retain the existing heat rate deadbands of plus or minus 100 Btu/kWh-sales for IFO and plus or minus 200 Btu/kWh-sales for diesel.⁹⁸ The Consumer Advocate agreed with HELCO's proposal to retain the existing heat rate deadbands, and the Parties' Partial Settlement reflected this agreement.⁹⁹ The commission accepts the Parties' stipulation as to retaining the existing heat rate deadbands.

The non-adjustable component of HELCO's ECRC is comprised of an Ocean Cargo Insurance expense of \$13,100 before revenue taxes for the 2019 Test Year.¹⁰⁰ The Consumer Advocate proposed an Ocean Cargo Insurance expense of \$20,000 before revenue taxes.¹⁰¹ In the Partial Settlement, the Parties appear to have agreed to HELCO's lower \$13,100 amount.¹⁰² The commission accepts the stipulation as to the non-adjustable component of the ECRC.

The commission accepts the above changes to the target sales heat rates and non-adjustable component of HELCO's ECRC, which may be made effective when interim rates are made effective.

⁹⁸Partial Settlement, Exhibit 1 at 13.

⁹⁹Partial Settlement, Exhibit 1 at 14.

¹⁰⁰Application, Direct Testimonies and Exhibits, Book 1, HELCO-457 at 4.

¹⁰¹CA's Direct Testimonies, CA-305 at 2, CA-315 at 2.

¹⁰²See Partial Settlement, Exhibit 1 at 27.

In doing so, it does not appear that the commission's acceptance of the above matters resolves any part of Blue Planet's participation in this proceeding. In its Direct Testimony, Blue Planet proposes: (1) a 5%/95% ECRC risk sharing ratio with a maximum annual exposure of +/- \$1.0 million, (2) adopting a mechanism under which the ECRC for fossil fuels would be phased down over twenty-five years, by 2044, and (3) eliminating the heat rate adjustment in the ECRC.¹⁰³

As to Blue Planet's proposed 5%/95% risk sharing ratio with a maximum annual exposure of +/- \$1.0 million, the Parties agreed to a 2%/98% risk sharing ratio with a maximum annual exposure of \$600,000 to be implemented at final rates.¹⁰⁴ Because the Parties agreed that their stipulated risk sharing ratio and maximum annual exposure is to be implemented at final rates, and the Parties' position on these matters differs from Blue Planet's position, the commission declines to accept the Parties' stipulation on these matters at this time, but may accept the stipulation in the final decision following further deliberation.

¹⁰³"[Blue Planet's] Testimony and Exhibit List; Direct Testimony of Ronald J. Binz; Exhibits "1" to "3"; and Certificate of Service," filed July 25, 2019 ("Blue Planet's Testimony"), Direct Testimony of Ronald J. Binz ("Binz's Testimony") at 8.

¹⁰⁴Partial Settlement, Exhibit 1 at 27.

As to Blue Planet's proposal to adopt a mechanism under which the ECRC for fossil fuels would be phased down over twenty-five years, by 2044, this proposal does not appear to be addressed by the Partial Settlement. As such, the commission will address Blue Planet's proposal in the final decision.

As to Blue Planet's proposal to eliminate the heat rate adjustment in the ECRC, Blue Planet admits,¹⁰⁵ and the commission observes, that Blue Planet seems to have made the same proposal in Docket No. 2017-0150, MECO's 2018 test year rate case,¹⁰⁶ and Docket No. 2016-0328, HECO's 2016 test year rate case.¹⁰⁷ It does not appear that the above decisions on the Parties' stipulations as to HELCO's estimate of target sales heat rates for IFO and diesel, retaining the existing heat rate deadbands for IFO and diesel, nor revising the non-adjustable component of the ECRC to be consistent with 2019 Test Year values preclude consideration of Blue Planet's proposal in the commission's final decision. As such, the commission defers consideration of this issue to its final decision.

¹⁰⁵Blue Planet's Testimony, Binz's Testimony at 39-40.

¹⁰⁶In re Maui Elec. Co., Ltd., Docket No. 2017-0150, Decision and Order No. 36219, filed March 18, 2019, at 27.

¹⁰⁷In re Hawaiian Elec. Co., Inc., Docket No. 2016-0328, Final Decision and Order No. 35545, filed June 22, 2018, at 54.

RBA Monthly Allocation Factors

HELCO proposes to change the monthly allocation factors for the distribution of target revenue to be based on the number of days in the month rather than monthly sales because "using the days of the month provides stability, consistency and simplicity in the allocation factors, which further decouples revenues from sales."¹⁰⁸ The Consumer Advocate agrees with HELCO's proposed change to the monthly allocation factors because the proposed change "would simplify its administration and avoid future incidents where shifts in kWh sales forecasts in rate cases could create over or under-recoveries of target revenues."¹⁰⁹ The Parties further agreed to submit for approval the modifications to the RBA monthly allocation factors to be based on a 365-day calendar year beginning, and to be made effective, January 1, 2020.¹¹⁰ The commission accepts the Parties' stipulation on this issue.

¹⁰⁸Application, Direct Testimonies and Exhibits, Book 9, HELCO T-23 at 44; HELCO's Response to CA-IR-81, filed March 5, 2019.

¹⁰⁹CA's Direct Testimonies, CA-T-2 at 125-26; see Partial Settlement, Exhibit 1 at 105-06.

¹¹⁰Partial Settlement, Exhibit 1 at 107.

RBA Rate Adjustment

HELCO proposes to change the RBA Rate Adjustment from a per kWh energy charge to a percentage of base revenues charge that includes the energy (without fuel and purchased power), demand, customer, and minimum charges, and will thus make the RBA surcharge "non-bypassable."¹¹¹ In response to PUC-HELCO-IR-158, HELCO states that under the "current kWh energy-based RBA surcharge design, a customer with little or no billed kWh energy could bypass contributing to the RBA surcharge."¹¹² HELCO states that its proposal to change the application of the RBA Rate Adjustment to a percentage-of-base-bill basis

primarily addresses the overall issue of fairness and can simultaneously serve the purpose of preserving the existing rate design between rate cases which affects the relative allocation of the adjustment to different customer classes. In addition, the percentage-of-base-bill basis further decouples cost recovery from kWh sales and customer bills should be more stable from month to month because a percentage surcharge would apply to the fixed monthly customer charges.¹¹³

¹¹¹Application, Direct Testimonies and Exhibits, Book 9, HELCO T-23 at 45.

¹¹²HELCO's Response to PUC-HELCO-IR-158(4), filed October 16, 2019.

¹¹³HELCO's Response to PUC-HELCO-IR-158(3), filed October 16, 2019.

The Consumer Advocate agrees with HELCO's proposed change to the RBA Rate Adjustment.¹¹⁴

However, HPVC asserts that the RBA Rate Adjustment proposal should be rejected because (1) it is in "conflict with the policy rationales for revenue decoupling because it effectively increases fixed customer charges and minimum bills"; (2) it "would lock in changes to fixed customer charges and minimum bills outside of an evaluation of a refreshed cost of service analysis in a rate case, and deprive stakeholders of the opportunity" to contest the changes; (3) the "effects of adopting the proposal on Hawaii's clean energy and greenhouse gas emission goals are unknown, but there is reason to believe that they would be adverse"; and (4) would "introduce inequities among ratepayers of the respective HECO affiliates" and thus it would be "inappropriate to make a core rate design change to Rider RBA in the current proceeding."¹¹⁵

HELCO, in its Rebuttal Testimonies, points out that HPVC "does not have any workpapers or studies to support its assertion that increases in fixed customer charges and minimum bills adversely affects customer adoption of DER[,]" and states that the

¹¹⁴CA's Direct Testimonies, CA-T-2 at 125-27.

¹¹⁵"Exhibit List; Direct Testimony of Justin R. Barnes; and Certificate of Service on Behalf of [HPVC]," filed July 25, 2019 ("HPVC's Direct Testimony"), at 16-17.

commission should adopt the Parties' modifications to the RBA Rate Adjustment because "all customers should pay their fair share of the RBA surcharge."¹¹⁶

Although HELCO and the Consumer Advocate agreed to implement HELCO's proposed RBA Rate Adjustment change at the time of implementation of interim rates,¹¹⁷ the commission finds that there are several issues regarding this change that the commission would like to further examine during the remainder of this proceeding, including: (1) HPVC's position on the proposed changes; (2) the specific methods and/or templates that would be used to annually recalculate the RBA Rate Adjustment consistent

¹¹⁶"[HELCO's] Rebuttal Testimonies; Exhibits and Workpapers," filed October 9, 2019, HELCO RT-23 at 15 (emphasis in original).

HPVC explained, in response to HELCO's information request to "[p]lease provide any studies or workpapers that support the statement, 'The customer is therefore incrementally less likely to install a DER'":

There are not any workpapers associated with this statement. Mr. Barnes' statement is based on logic. Customers consider future bill savings when making DER investment decisions. When those future expected bill savings are made lower than they would otherwise be, DER adoption rates will be correspondingly lower.

"[HPVC's] Response to [HELCO's] Information Requests," filed August 26, 2019, HELCO/HPVC-IR-101.

¹¹⁷Partial Settlement, Exhibit 1 at 107.

with the proposed changes;¹¹⁸ (3) the rate design implications relating to the Minimum Charge; and (4) impacts on revenue allocations amongst HELCO's customer classes.¹¹⁹

. As such, the commission finds that consideration of this proposed change to the RBA Rate Adjustment warrants a more careful review that is more appropriately made in the commission's final decision rather than this Interim Decision and Order.¹²⁰ Accordingly, the commission declines to accept the Parties' stipulation on HELCO's proposed change to the basis for applying the RBA Rate Adjustment from a kWh to a percentage-of-base-bill basis at this time, but may do so in the commission's final decision following further review and consideration.

D.

Deferred Matters

This Interim Decision and Order is for purposes of determining interim relief pursuant to HRS § 269-16(d). As such, this Interim Decision and Order resolves Issue No. 2 in the Statement of Issues section of the Parties' Stipulated

¹¹⁸See HELCO's Response to PUC-HELCO-IR-159(2), filed October 16, 2019.

¹¹⁹See HELCO's Response to PUC-HELCO-IR-158, filed October 16, 2019; see also HPVC's Direct Testimony.

¹²⁰See In re Maui Elec. Co., Ltd., Docket No. 2009-0163, Interim Decision and Order, filed July 27, 2010, at 11-12 n.18.

Procedural Order, as modified by Order No. 36353 filed June 5, 2019. The commission will later address Issue Nos. 1, 3, and 4, including all sub-issues thereunder, in a final decision.

More specifically, to be clear, the commission accepts the Partial Settlement between the Parties, subject to the modifications described herein. However, moving forward, the commission will continue to consider:

1. The four disputed issues between the Parties (i.e., ROE, common equity ratio, State ITC amortization period, and the annual target heat rate adjustment).

2. Based on the \$10,561,000 increase in non-fuel-and-purchased-power O&M expenses between the 2016 test year and the Partial Settlement, and assuming a 9.50% ROE, 58.00% total equity ratio, and ten-year amortization period for the State ITC, whether it is reasonable to:

- A. Approve an increase in HELCO's revenues above current effective revenues

- B. Maintain HELCO's revenues at current effective revenues; or

- C. Approve revenues in an amount that is less than current effective revenues.

3. Rate design provisions, including customer charges, demand charges, demand charge ratchet provisions, and other

specific changes identified in the Partial Settlement, Exhibit 1 at pages 103 to 107.

4. The proposed implementation of the RBA Rate Adjustment on a percentage-of-base-bill basis rather than on a kilowatt-hour basis, including HPVC's position on this issue.

5. Blue Planet's proposed ECRC modifications (i.e., its proposed 5%/95% risk sharing ratio with a maximum annual exposure of +/- \$1.0 million, adopting a mechanism under which the ECRC for fossil fuels would be phased down over twenty-five years, by 2044, and eliminating the heat rate adjustment in the ECRC).¹²¹

6. County's testimony, including but not limited to Nathan Johnson's testimony about "infrastructure susceptibility to natural disasters and implications for rates" and "rate base value of grid modernization and non-wire alternatives," and the reports that Kris Mayes proposes that HELCO be required to file.¹²²

As discussed above, within ten (10) days of the date of this Interim Decision and Order, HELCO and the Consumer Advocate shall submit a filing with the commission indicating whether they wish to withdraw from the Partial Settlement and, if so: (1) the specific issue(s) that the requesting Party intends to further address during the post-Interim Decision and Order phase

¹²¹Blue Planet's Testimony at 8, 28.

¹²²See County's Testimony at 4-42.

of this proceeding; and (2) whether the requesting Party wishes to waive its right to an evidentiary hearing on the issue(s). Depending on the Parties' responses, the commission may modify the procedural schedule governing the remainder of this proceeding, which may include further briefing from the Parties and Participants.

E.

Refund

HELCO will be required to refund to its customers any excess collected under this Interim Decision and Order, together with such interest as provided by HRS § 269-16(d),¹²³

¹²³In pertinent part, HRS § 269-16(d) states:

In the event interim rates are made effective, the commission shall require by order the public utility to return, in the form of an adjustment to rates, fares, or charges to be billed in the future, any amounts with interest, at a rate equal to the rate of return on the public utility's rate base found to be reasonable by the commission, received under the interim rates that are in excess of the rates, fares, or charges finally determined to be just and reasonable by the commission. Interest on any excess shall commence as of the date that any rate, fare, or charge goes into effect that results in the excess and shall continue to accrue on the balance of the excess until returned.

if the final rates approved by the commission are less than the total interim rates set by this Interim Decision and Order.

III.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

Based on the foregoing discussion, the commission makes the following findings of fact and conclusions of law:

1. HRS § 269-16(d) mandates that the commission make every effort to complete its deliberations and issue a final decision in public utility rate cases within nine months after a completed application has been filed by a utility. If such deliberations are not concluded within the nine-month period, 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 for thirty days if the commission considers the evidentiary hearings incomplete."¹²⁴

2. The Parties stipulated to a November 14, 2019 deadline for the Interim Decision and Order, which the commission approved in Order No. 36353. In its Statement of Probable Entitlement, HELCO states that the statutory deadline for the Interim Decision and Order is November 13, 2019, and not November 14, 2019, as agreed to between the Parties, and requests

¹²⁴HRS § 269-16(d).

an Interim Decision and Order by November 13, 2019.¹²⁵ This Interim Decision and Order is issued in compliance with HRS § 269-16(d).

3. Pursuant to HRS § 269-16(d), the commission may grant an interim increase, subject to refund and interest, pending a final decision, if the commission believes that the public utility is probably entitled to an increase in its rates.

4. Based on this record, HELCO has not satisfied its burden of proving that it is probably entitled to an interim increase in revenues that are in addition to current effective revenues. The commission thus denies HELCO's requested increase in revenues over current effective revenues on an interim basis, and thus resolves Issue No. 2 in this proceeding.¹²⁶

5. For purposes of setting interim rates, pending a final decision in this docket, it is appropriate and reasonable to adopt an interim revenue requirement of \$386,746,000, average rate base of \$534,443,000, a ten-year amortization period for the State ITC, and a 7.52% ROR on average rate base that incorporates a 9.50% ROE and 58.00% total equity ratio.¹²⁷

¹²⁵HELCO's Statement of Probable Entitlement at 1, 8 & n.32.

¹²⁶Order No. 36353, "Approving with Modifications the Parties' Proposed Procedural Order," filed June 5, 2019, at 10-11.

¹²⁷See HELCO's Statement of Probable Entitlement, Attachment 5 at 1.

6. The commission will continue to examine the pertinent issues in this docket, as noted above, and will issue a final decision addressing HELCO's application for rate relief subsequent to this Interim Decision and Order.

IV.

ORDERS

THE COMMISSION ORDERS:

1. The commission denies HELCO's requested increase in revenues on an interim basis that are in addition to revenues at current effective rates.

2. The commission instead approves an interim adjustment to base rates to maintain the current total amount of revenue collected from HELCO's customers at current effective revenues.

3. For purposes of setting interim rates:

A. HELCO shall submit any proposed exhibits necessary to implement interim rates consistent with the terms of this Interim Decision and Order and an updated version of page 2 of Attachment 8 to HELCO's Statement of Probable Entitlement, as corrected by HELCO's Response to PUC-HELCO-IR-160, filed October 16, 2019, indicating the interim rates by class and percentage resulting from the reallocation of RAM revenues that

are being removed from the RBA Rate Adjustment, and with no increase to current effective rates.

B. The Consumer Advocate may file comments on HELCO's proposed exhibits and revised version of page 2 of Attachment 8 to HELCO's Statement of Probable Entitlement within five (5) days of the date of HELCO's filing of these documents.

4. HELCO's requested changes to the ECRC (i.e., to use HELCO's estimate of target sales heat rates for IFO and diesel, to retain the existing heat rate deadbands for IFO and diesel, and to revise the non-adjustable component of the ECRC to be consistent with 2019 Test Year values) shall be made effective when interim rates are made effective. HELCO shall file ECRC tariff sheets conforming with the provisions of this Decision and Order for review and later approval by the commission.

5. Within ten (10) days of the date of this Interim Decision and Order:

A. The Consumer Advocate and HELCO are instructed to submit a filing notifying the commission whether they wish to withdraw from the Partial 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, which may include further briefing from the Parties and Participants.

B. HELCO shall submit for approval its proposed modifications to the RBA monthly allocation factors, to be made effective on January 1, 2020.

6. Upon issuance of the final decision, any amount collected pursuant to the effective interim rates that is in excess of the rates determined by the final decision to be just and reasonable shall be refunded to HELCO's ratepayers, together with interest, as provided in HRS § 269-16(d).

DONE at Honolulu, Hawaii NOV 13 2019.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By James P. Griffin By Jennifer M. Potter
James P. Griffin, Chair Jennifer M. Potter, Commissioner

APPROVED AS TO FORM:

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By Leodoloff R. Asuncion, Jr.
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2018-0368.ljk

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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Page 2

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