BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

----In the Matter of---- PUBLIC UTILITIES COMMISSION Instituting a Proceeding To Investigate Implementing a Decoupling Mechanism for Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc., and Maui Electric Company, Limited.	DOCKET NO. 2008-0274

ORDER ESTABLISHING HEARING PROCEDURES

FILED
2009 JUN 16 P 12: 03
PUBLIC UTILITIES COMMISSION

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ORDER ESTABLISHING HEARING PROCEDURES

By this Order, the commission sets the procedures for the panel hearing scheduled for June 29 - July 2, 2009.[1]

I.

Background

On October 24, 2008, the commission opened this docket to examine implementing a decoupling mechanism for HAWAIIAN ELECTRIC COMPANY, INC. ("HECO"), MAUI ELECTRIC COMPANY, LIMITED ("MECO"), and HAWAII ELECTRIC LIGHT COMPANY, INC. ("HELCO")[2] that would modify the traditional model of rate-making for the HECO Companies by separating the HECO Companies' revenues and profits from electricity sales. In that order, the commission

[1]The commission issues this Order in advance of the prehearing conference scheduled for June 22, 2009. Accordingly, the parties may address any questions that arise from this Order at the prehearing conference.

[2]HECO, MECO and HELCO are collectively referred to as the "HECO Companies."

directed the parties to file a stipulated procedural order setting forth the issues, procedures, and schedule to govern this proceeding.

Thereafter, on January 21, 2009, the commission approved, with modifications, the proposed Stipulated Procedural Order submitted by the HECO Companies, the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"),[3] LIFE OF THE LAND ("LOL"), HAWAII RENEWABLE ENERGY ALLIANCE ("HREA"), HAIKU DESIGN AND ANALYSIS ("HDA"), HAWAII HOLDINGS, LLC, DOING BUSINESS AS FIRST WIND HAWAII ("First Wind"), the STATE OF HAWAII, DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM ("DBEDT"), HAWAII SOLAR ENERGY ASSOCIATION ("HSEA"), and BLUE PLANET FOUNDATION ("Blue Planet") on December 26, 2008.[4]

As set forth in the Statement of Issues presented in the Procedural Order, the commission will decide in this proceeding:

> 1. Whether the joint proposal or any separate proposals that are submitted by

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[3]The Consumer Advocate is an ex officio party to this proceeding pursuant to Hawaii Revised Statutes § 269-51 and Hawaii Administrative Rules § 6-61-62.

[4]See Order Approving, with Modifications, Stipulated Procedural Order Filed on December 26, 2008, which was filed on January 21, 2009 ("Procedural Order"). The commission has since approved a request by LOL to withdraw from this docket, and a motion by First Wind to change its status from an intervenor to a participant. Thus, the HECO Companies, Consumer Advocate, HREA, HDA, DBEDT, HSEA, and Blue Planet are collectively referred to herein as the "Parties."

the HECO Companies, the Consumer Advocate or other parties are just and reasonable?

2. Whether the decoupling mechanism(s) will result in accelerating the addition of new, clean energy resources in the HECO Companies' systems, while giving the HECO Companies an opportunity to achieve fair rates of return?

3. What should be the scope of and elements to be included in the decoupling mechanism?

4. How will decoupling impact the utilities, their customers, and the clean energy market?

5. Which issues and details regarding the implementation of the decoupling mechanism(s), including the determination of any revenue target, should be taken up in the context of individual rate case proceedings of HECO, HELCO and MECO?

6. Whether any cost tracking indices proposed for use in estimating revenue adjustment calculations can be expected to determine just and reasonable revenue adjustments on an on-going basis, accounting for the differences between the revenue requirement amounts determined in each utility's last rate case and:

   (a) The current cost of operating the utility;

   (b) Return on and return of ongoing capital investment; and

   (c) Any changes in State or federal tax rates.

7. Whether any earnings monitoring/sharing, service quality provisions, or any other adjustments or considerations are appropriate to implement as part of the decoupling methodology in order to calculate ongoing revenue adjustments that are just and reasonable?

8. Whether any provisions for administrative procedures (e.g., utility filings, decoupling tariffs, deferral accounting provisions, customer notice provisions, planned review/audit procedures and any appeal or hearing provisions) are appropriate, necessary and sufficient to ensure that post test year decoupling adjustments are fair and reasonable?

9. How many years should the decoupling/attrition revenue mechanism remain in place for each of the utilities before the next rate cases are to be filed and under what conditions can the utility, the Commission or other parties initiate formal rate proceedings outside of such rate case intervals?

10. What accounting and regulatory reporting provisions are necessary to implement any decoupling provisions in a manner that will ensure reasonable definition, isolation and recovery of the types of costs that are to be separately tracked and charged to customers through other cost recovery mechanisms, such as: Renewable Energy Infrastructure Program/Clean Energy Initiative, Energy Cost Adjustment Clause, Purchased Power, Demand Side Management, and other surcharge mechanisms?

11. Issues identified in the Commission's scoping paper in this docket.[5]

The purpose of the panel hearing is to assist the commission in making these decisions.

II.

Hearing Procedures and Organization

The panel hearing, which was noticed for June 29 - July 2, 2009, is scheduled to begin daily at 9:00 a.m., unless

[5]Procedural Order, Exhibit 1, at 2-4.

subsequently modified by the commission. Consistent with prior panel hearings (e.g., Docket Nos. 03-0371, 03-0372, 05-0069), the commission will establish panels of witnesses. By June 19, 2009, each party shall file the name, title, and CV of each person who may appear for each panel. There are some issues on which multiple Parties have articulated a joint position. In those situations, the commission encourages the Parties to appoint a single panelist.

Mr. Scott Hempling, Executive Director of the National Regulatory Research Institute ("NRRI"), the commission's consultant, will be moderating the panel hearing. Consistent with prior panel hearings, Mr. Hempling will direct commission questions to specific panel members. These questions will have been prepared by commission staff and NRRI in advance, and will be asked by Mr. Hempling, with follow-up questions by commissioners and staff, if deemed necessary. The parties will be given an opportunity to question each other after the commission's questions are completed.

The hearing will consist of six distinct panels representing the major subject areas requiring commission decisions. Those panels are:

I. Will Decoupling Help Achieve Hawaii's Objectives?

II. Decoupling Mechanics: How Well Does the HECO Companies' Decoupling Design Achieve Hawaii's Objectives?

III. Revenue Adjustment Mechanism: How Well Does it Achieve Hawaii's Objectives?

IV. Revenue Per Customer Mechanism and Other Alternatives: How Well Do They Achieve Hawaii's Objectives?

V. Energy Cost Adjustment Clause Amendment: What are Its Advantages and Disadvantages, In Terms of Hawaii's Objectives?

VI. What Review Processes and Safeguards Should the Commission Consider?

The panel topics and subtopics are attached as Exhibit A. These panel areas are consistent with the issues set forth in the Procedural Order. However, to avoid confusion and provide additional clarity, the commission will replace the issues set forth in the Procedural Order with the issues set forth above.

The questions identified in Exhibit A are intended to help guide the Parties' preparation. There will not be a one-to-one correspondence between the questions listed in Exhibit A and the questions asked orally at the hearing; the oral questions will be more numerous and specific than the questions in Exhibit A.

Because of the large number of issues and the limited number of hours, it is inevitable that a panel period will end without every party making every desired point. For that reason, the commission will entertain oral closing statements at the closing of the hearing, followed by written submissions as set forth in the Procedural Order. Each party will have

the opportunity to present closing statements of ten minutes each. (The HECO Companies will have ten minutes, collectively.) The commission will not hear opening comments. The person offering the closing comments can be either a lawyer, witness or authorized representative of each party.

III.

Orders

THE COMMISSION ORDERS:

1. The issues, as identified in the Procedural Order, are replaced with the following issues:

I. Will Decoupling Help Achieve Hawaii's Objectives?

II. Decoupling Mechanics: How Well Does the HECO Companies' Decoupling Design Achieve Hawaii's Objectives?

III. Revenue Adjustment Mechanism: How Well Does it Achieve Hawaii's Objectives?

IV. Revenue Per Customer Mechanism and Other Alternatives: How Well Do They Achieve Hawaii's Objectives?

V. Energy Cost Adjustment Clause Amendment: What are Its Advantages and Disadvantages, In Terms of Hawaii's Objectives?

VI. What Review Processes and Safeguards Should the Commission Consider?

2. By June 19, 2009, each party shall file the name, title, and CV of each panelist who will appear for each panel, including any joint panelists.

3. This order shall control the subsequent course of the hearing, unless modified or otherwise ordered by the commission. This order shall supersede the Procedural Order where there is a conflict and shall supplement it in all other respects.

DONE at Honolulu, Hawaii JUN 16 2009.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By _____
Carlito P. Caliboso, Chairman

By _____
John E. Cole, Commissioner

By _____
Leslie H. Kondo, Commissioner

APPROVED AS TO FORM:

_____
Kaiulani Kidani Shinsato
Commission Counsel

2008-0274.laa

Decoupling Panel Array

1. **Will Decoupling Help Achieve Hawaii's Objectives? (3 hrs)**

2. **Decoupling Mechanics: How Well Does the HECO Companies' Decoupling Design Achieve Hawaii's Objectives? (4 hrs)**

3. **Revenue Adjustment Mechanism: How Well Does it Achieve Hawaii's Objectives? (2 hours)**

4. **Revenue Per Customer Mechanism and Other Alternatives: How Well Do They Achieve Hawaii's Objectives? (3 hrs)**

5. **Energy Cost Adjustment Clause Amendment: What are Its Advantages and Disadvantages, In Terms of Hawaii's Objectives? (2 hrs)**

6. **What Review Processes and Safeguards Should the Commission Consider? (2 hrs)**

7. **Legal Questions (1 hr)**
   [to be flagged during the preceding panels]

8. **Closing Arguments (1 hr)**

EXHIBIT A

I. Will Decoupling Help Achieve Hawaii's Objectives?

A. Whether adopting a decoupling mechanism for the HECO Companies, in place of the traditional rate-recovery method, is reasonable, prudent, and in the public interest?

B. Hawaii's objectives

1. reduce consumption of fossil fuel-based electricity by substituting energy efficiency, demand response and renewable energy for fossil production

2. maintain utility's ability to attract capital, on reasonable terms, sufficient to fulfill its statutory obligations

3. other?

C. Possible purposes of decoupling

1. Does current rate design conflict with Hawaii's objectives?

The premise for decoupling is that under current embedded cost rate design, reduction in sales causes a reduction in profit because the variable charge reflects not only the utility's variable costs but a majority of the utility's fixed costs. How large a problem is this?

2. Given that premise, purposes of decoupling include:

a. ensure that utility earns a reasonable return on investment necessary to serve the public, regardless of level of sales

b. overcome utility resistance to sales-diminishing programs that serve Hawaii's interests

c. protect utility from under-recovery of existing fixed costs

d. protect return on equity from diminution due to sales decline

e. protect total profit dollars from diminution due to sales decline

f. other?

Which, if any, of these purposes are relevant to Hawaii?

D. Hawaii facts relevant to the desirability of decoupling

1. sales growth history

2. customer growth history

3. Programs under way

   a. RPS
   b. existing energy efficiency programs
   c. Energy efficiency per HB 1464
   d. Renewable energy per HB 1464

4. Possible future programs

   a. FiT
   b. Solar PV Host
   c. independent energy efficiency program administrator
   d. REIPS
   e. other

II. Decoupling Mechanics: How Well Does the HECO Companies' Decoupling Design Achieve Hawaii's Objectives?

Note: This panel would discuss the decoupling mechanics separate from the RAM and ECAC. Decoupling can exist without RAM and ECAC; RAM and ECAC can exist without decoupling.

A. Determine base revenue requirement

B. Determine target revenue

C. Record difference between target revenue and actual revenue in the Revenue Balance Account (RBA)

   1. Each month, the difference (positive or negative) between targeted revenue and actual revenue goes into the Revenue Balancing Account.

   2. Amounts in the RBA earn 6% interest.

D. Adjust rates to recover (or refund) the difference between target revenue and actual

   1. The charge will appear as a separate line on the customer bill.

   2. HECO views the RBA and RAM as an automatic rate adjustment clause. They therefore will file the RBA and RAM tariff changes through tariff transmittal letters.

E. Evaluation and Safeguards

III. Revenue Adjustment Mechanism: How Well Does It Achieve Hawaii's Objectives?

A. Purpose of the RAM

> HECO: "... [S]etting target revenues that do not change between rate cases under sales decoupling provides no compensation to the utility for any inflationary pressures upon utility costs or new infrastructure investments. Therefore, there is a need to allow increases in target revenue levels each year."

B. Mechanics of the RAM

1. Purpose
2. O&M escalation
3. Rate base adjustment
4. Treatment of earnings below and above authorized level

C. Concerns about the RAM

1. Does it track costs accurately or will it produce excess earnings?
2. What is the opportunity for Commission review of cost increases?
3. Given the REIPS, what is the incremental benefit of the rate base component of the RAM? (See also HB 1464, allowing for REIP to be funded by state revenue bonds)
4. Are there alternatives?
5. Does RAM's wage inflator make the utility indifferent to wage increases?
6. What are the ROE implications of RAM-based revenue increases?

D. Conditions on the RAM

(DBEDT, BP) Tie RAM reward to HECO progress on:

1. new renewable power from net energy metered customers interconnected to the system during the year;

2. new renewable power purchased through FiTs during the year;

3. new renewable power purchased through the PV Host Program during the year;

4. the increase in other renewable power during the year; and

5. the number of new net energy metered customers interconnected in the system during the year.

IV. Revenue Per Customer Mechanism and Other Alternatives: How Well Do They Achieve Hawaii's Objectives?

A. HDA's Revenue per Customer

1. Purpose

2. Description

3. Relationship to HECO's decoupling proposal

4. Relationship to HECO's RAM proposal

B. Other alternatives

V. Energy Cost Adjustment Clause Amendment: What are Its Advantages and Disadvantages, In Terms of Hawaii's Objectives?

Status quo: Current ECAC includes heat rate adjustment that allows utility to keep extra money when actual heat rate is less than target heat rate and vice versa.

A. Does the heat rate incentive encourage a utility to curtail a renewable producer rather than curtail a base load (relatively efficient) fossil fuel plant? Does it make the utility less willing to encourage energy efficiency for the same reasons?

B. Should the Commission eliminate the heat rate adjustment, thus allowing a full pass-through of energy costs through the ECAC?

C. Does either the RAM or either decoupling mechanism (HECO's or RPC) affect the current operations of the ECAC?

VI. What Review Processes and Safeguards Should the Commission Consider?

A. Review of decoupling's results: frequency and type of review

1. Review of relationship of RAM recovery to actual costs

2. Possibility of rate volatility

3. Administrative costs

4. Timing of reviews

B. Caps on revenue increases

C. Link decoupling's continuation to performance

1. the number of new net energy metered customers interconnected to the system during the year;

2. the increase in nonfossil-based kilowatt-hour generation during the year;

3. the increase in the number of customers signed up in the Pay-as-You-Save Solar Program during the year;

4. the amount of new renewable energy (kilowatt-hours) purchased through the feed-in tariffs during the year

5. the decrease in the amount of fossil oil used during the year

6. the increase in the energy savings (kWh) resulting from energy efficiency programs and demand-side programs

7. the number of new net energy metered customers interconnected in the system during the year

8. Service quality indices, e.g., System Average Interruption Frequency Index (SAIF), and Customer Average Interruption Duration Index (CAIDI)

D. Continued Commission review

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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