ORIGINAL

DIVISION OF CONSUMER ADVOCACY
Department of Commerce and
Consumer Affairs
335 Merchant Street, Room 326
Honolulu, Hawaii 96813
Telephone: (808) 586-2800

FILED
2009 AUG 17 P 3: 29
PUBLIC UTILITIES COMMISSION

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of	)	
	)	
HAWAIIAN ELECTRIC COMPANY, INC.	)	DOCKET NO. 2008-0083
	)	
	)	
Approval of Rate Increase and Revised Rate Schedules and Rules.	)	

DIVISION OF CONSUMER ADVOCACY'S RESPONSES TO COMMISSION'S INFORMATION REQUESTS

Pursuant to Commission's letter dated August 3, 2009, the Division of Consumer Advocacy submits its **RESPONSES TO COMMISSION'S INFORMATION REQUESTS (PUC-IR-108, 110, 111, 113, and 116)** in the above docketed matter.

DATED: Honolulu, Hawaii, August 17, 2009.

Respectfully submitted,

By Catherine P. Awakuni
CATHERINE P. AWAKUNI
Executive Director

DIVISION OF CONSUMER ADVOCACY

DOCKET NO. 2008-0083

HAWAIIAN ELECTRIC COMPANY, INC.

DIVISION OF CONSUMER ADVOCACY'S RESPONSES TO COMMISSION'S INFORMATION REQUESTS

PUC-IR-108

Reference: Act 162 (2006)HECO ST-10B at 17.
HECO filed Supplemental Testimony of Dr. Jeff D. Makholm, on Behalf of Hawaiian Electric Company, Inc. on July 20, 2009. Dr. Makholm stated the following:

...Most states currently have a form of budget billing program available to residential customers.

Please provide:

a) the estimated costs of budget billing programs for at least three utilities that have a similar number of residential customers as HECO;

RESPONSE: The Consumer Advocate does not have ready access to the information that is being requested and cannot speak on HECO's position on each of the questions raised.

The Consumer Advocate notes that while a budget billing program might offer some degree of bill stabilization, since Hawaii enjoys a relatively temperate climate, the variability in customer bills as it relates to seasonal differences are not as extreme in Hawaii as it is in many areas on the mainland.

The Consumer Advocate assumes that difficulties in projecting fuel price trends would result in the existing ECAC continuing, which would mean that bill variability caused by fuel prices would also continue. Thus, the implementation of a budget billing program may not yield meaningful results.

b) advantages and disadvantages to HECO and its customers of providing a budget billing program, including but not limited to, rate smoothing; and

RESPONSE: See response to part (a) of this information request.

c) reasons why HECO considers a budget billing program to be *not reasonable or cost-effective for HECO.*

RESPONSE: See response to part (a) of this information request.

PUC-IR-110

Reference: Rate of Return; CA-ST-4 at 3.

In his direct testimony, Mr. David Parcel stated "the HCEI proposals, including decoupling are risk-reducing to HECO and have the effect of transferring a portion of the Company's risks from its shareholders to its customers." Mr. Parcel recommended the bottom of his 9.5 percent to 10.5 percent cost of equity range should be adopted if the HCEI proposals were adopted.

In the supplemental testimony, Mr. Parcel stated that "if the HCEI-related programs and decoupling are "off the table," he recommended that the mid-point of his 9.50 percent to 10.50 percent cost of equity range be adopted.

a) List all HCEI proposals that would need to be adopted to support the Consumer Advocate's 50 basis point adjustment to the cost of equity.

RESPONSE: Mr. Parcell is generally proposing that, as an initial recommendation, the 50 basis point adjustment to the cost of common equity be applied if all the HCEI proposals are adopted. It is possible, however, that an alternative and/or revised recommendation may be offered in the future after additional data and further experience with possible differences in risk resulting from some of the HCEI proposals and impact on the calculated cost of equity can be determined.

b) Discuss and provide your calculations and workpapers to reflect the risk adjustment for each of the HCEI proposals.

RESPONSE: Mr. Parcell has not attempted to determine the specific risk reduction and cost of common equity impact for each individual HCEI proposal. Generally, the determination of a recommended cost of capital is not a "bottoms-up" approach that lends itself to an analytical process that results in separate calculations and

estimates for each of the various business, operational and financial risks normally considered. In addition, given the unique nature of the HCEI Agreement and the various proposals that resulted from that Agreement, this presents an even greater challenge to provide specific quantitative support. As a result, there are no calculations and work papers.

c) Discuss and provide your calculations and workpapers for the cost of equity if the HCEI proposals are not adopted.

RESPONSE: Please see response to part (b) of this information request.

d) Discuss and provide your calculations and workpapers for the cost of equity if some, but not all of the HCEI proposals are adopted.

RESPONSE: Mr. Parcell can not answer this with specificity. However, the impact of the HCEI proposals has the cost of common equity cost impact of zero (no HCEI proposals) to 50 basis points (all HCEI proposals). As a result, the implementation of "some, but not all of the HCEI proposals" generally falls with a range of zero to 50 basis points. The Consumer Advocate contends, however, that certain proposals have a greater impact, and, thus, might result in a greater adjustment to the common equity. For instance, if the Commission approves the decoupling mechanisms jointly proposed in Docket No. 2008-0274 by the HECO Companies and the Consumer Advocate, this should result in a greater downward

adjustment to the cost of common equity as compared to, say, the installation of Advanced Metering Infrastructure ("AMI") and the implementation of time of use ("TOU") rates across a larger percentage of HECO's customer based. In fact, it is possible that HECO might argue that the combination of the commitment to such a large project as AMI (currently estimated at $115 million) and the possibility that revenues could arguably decrease if customers aggressively take advantage of properly designed TOU rates might cause upward pressure on the determination of a reasonable cost of common equity.

e) If there are other HCEI proposals that are not on your list, is it fair to state that these proposals would not have any effect on your proposed cost of equity? If no, please discuss.

RESPONSE: Not necessarily, although Mr. Parcell believes he has identified the major HCEI proposals.

PUC-IR-111 **Reference: Rate of Return; CA-ST-4 at 3.**

In his direct testimony, Mr. Parcel stated "the HCEI proposals, including decoupling are risk-reducing to HECO and have the effect of transferring a portion of the Company's risks from its shareholders to its customers."

a) Define "decoupling", as used in the referenced statement above.

RESPONSE: Mr. Parcell describes "decoupling" as the separation of customer usage and company revenues.

b) Discuss the impact of the decoupling mechanism as defined in Question (a) on the cost of equity.

RESPONSE: Mr. Parcell believes that decoupling, in this context and in all forms, has the effect of transferring a portion of a utility's risks from its stockholders to its ratepayers. This reduction in shareholder risk should be accompanied by a lower cost of common equity.

c) Discuss the impact of other types of decoupling on the cost of equity.

RESPONSE: Mr. Parcell is not sure what is meant by "other types of decoupling." Assuming, however, that the question refers to, say, a comparison between decoupling in its simplest form, i.e., all fixed costs recovered as a fixed charge and all variable costs recovered through a volumetric rate, and the joint proposal offered by the HECO Companies and the Consumer Advocate, the Consumer Advocate acknowledges that there might be differing levels of impact on the determination of a reasonable cost of common equity

for ratemaking purposes. As asserted in the response to part (b) of this information request, decoupling has the effect of transferring a portion of the utility risks from shareholders to ratepayers. Thus, even if, assuming arguendo, that the Commission is inclined to authorize a type of decoupling that differs from the joint proposal in Docket No. 2008-0274, there should still be some downward pressure on the determination of common equity. The Consumer Advocate reserves the right, however, to offer further discussion and/or analysis depending on the exact nature of a Commission approved decoupling design when, or if, such a design is articulated.

PUC-IR-113 **Reference: Purchased Power Adjustment Clause; CA-ST-2 at 12.**

The CA states that, ". . .Since the Consumer Advocate was a party to the Energy Agreement providing for the proposed Purchased Power Adjustment Clause ("PPAC"), I primarily looked to issues of implementation and quantification in assessing the reasonableness of the surcharge." Absent the Energy Agreement,

a) Would the CA find the PPAC reasonable? Please explain.

RESPONSE: Yes, the Consumer Advocate would likely find HECO's proposed PPAC reasonable absent the Energy Agreement with the current circumstances. As a general matter, the Consumer Advocate considers pass through mechanisms and riders that track changes in cost, such as purchased power cost through the proposed PPAC to be reasonable under certain limited circumstances if the tracked costs are recognized to be:

a. Subject to forces that are not under HECO's management control;

b. Significant enough to potentially cause adverse impacts on HECO's financial performance if the costs are not tracked between rate cases;

c. Straight forward and simple to administer, readily audited and verified through expedited reviews; and,

d. Balanced so as to achieve goals and objectives that are consistent with public interests, and state energy policies.

Under the state's energy policy, HECO is required to substantially increase the supply of energy from renewable resources. The increase in renewable energy is expected to

primarily be purchased from developers and third parties on an expedited basis. The Commission has a number of programs in place (such as competitive bidding) and proposed for the Commission's consideration (such as the proposed Feed-In Tariff), which, when fully implemented, will likely result in substantial increases in renewable energy purchases between HECO rate case filings. The proposed PPAC will track changes in the cost of renewable energy purchases between HECO rate cases, thereby reducing the financial impact on the Company. The proposed PPAC should also increase the feasibility of HECO entering into contracts for renewable energy from third party suppliers without increasing the need for a rate increase application, all other things held equal. The administration and review of the proposed PPAC are discussed in parts (b) and (c) of this information request.

b) What areas of concern should be addressed in reviewing the reasonableness of the PPAC?

RESPONSE: Areas of concern with riders, such as the PPAC, in general are that:

a. There will be less opportunity for scrutiny or input from the Commission and the Consumer Advocate and that it may be difficult for Hawaii's regulators and consumer representatives to exercise effective oversight over PPAC adjustments after costs have been incurred and rates have already been collected;

b. Riders such as the PPAC will place added burden on the Commission and the Consumer Advocate;

c. There may be a reduction in management incentives to hold down costs that are passed through to ratepayers, thus shifting responsibility and risk to customers for cost that otherwise are could be influenced by HECO's management and operations;

d. Billing complexity, administration and costs will be increased; and,

e. There may not be in place adequate auditing and verification procedures and reporting resulting in inadequate oversight of the use of the rider such as the PPAC.

Review of HECO's proposed PPAC indicates the its application and administration will be relatively straight forward to administer, and can be readily audited and verified with the Consumer Advocate's recommended reporting requirements set in direct and supplemental testimony (see also the response to part (c) of this information request). The proposed PPAC appears to be balanced between the state's renewable energy standards and goals through increased purchases, and HECO's recovery of the increased cost of such purchases. Finally, the proposed PPAC may also be viewed by some parties as eliminating a dis-incentive that would otherwise influence HECO deciding against significantly

increasing the purchase of renewable energy from developers and third parties between rate cases. Absent the proposed PPAC, HECO would not be able to recover increases in renewable energy purchased power costs not recovered through the ECAC between rate cases. In other words, it might be argued that the absence of the PPAC would potentially be a disincentive for HECO to take a greater amount of renewable energy from third parties, whereas the presence of the PPAC might make HECO somewhat neutral to any requirement to take greater amounts of renewable energy from third parties since the costs can be passed on to ratepayers.

c) What are ways of mitigating the concerns raised in question 1 b?

RESPONSE: As stated in CA-T-2, pages 57-58 and CA-ST-2, page 13, the Consumer Advocate recommends that the Commission review and approve resources that the Company would procure which would then be included in the amounts to be passed through the PPAC. This review and approval process should be performed at the time the Company acts to procure the resource. After the resource is procured, the Commission should review and approve costs from the resource that are includable in the PPAC.

Since HECO indicated that the PPAC will be adjusted monthly and reconciled quarterly, the Consumer Advocate recommends that HECO be required to file its calculations with the

Commission at least quarterly and that such calculations be reviewed and approved by the Commission to ensure that customers are appropriately charge for projected purchase power costs. Furthermore, the Commission should require HECO's filing to include all necessary workpapers and supporting documentation that would allow the Commission, Consumer Advocate and other parties to determine that HECO is not recovering costs more than once through the different cost recovery mechanisms beyond base rates that will be available to the Company.

PUC-IR-116 **Reference: Rate of Return; CA T-4 at 22 – 23.**

In his direct testimony, Mr. Parcel discussed four proposed HCEI regulatory mechanisms. The mechanisms are 1) Clean Energy Infrastructure or Renewable Energy Program Surcharge; 2) Purchased Power Adjustment; 3) Decoupling and 4) Rate Adjustment Mechanism.

a) Discuss and provide your calculations and workpapers for any adjustments to the cost of equity that could be attributed to the adoption of a Clean Energy Infrastructure or Renewable Energy Program Surcharge mechanism.

RESPONSE: As was indicated in the response to PUC-IR-110, Mr. Parcell has proposed a 50 basis point adjustment to HECO's cost of common equity if all the HCEI programs are adopted. Mr. Parcell has not performed any analyses or made any specific proposals for any one or any combination of HCEI programs, such as Clean Energy Infrastructure or Renewal Energy Program Surcharge mechanism. As was indicated in the response to PUC-IR-110, any combination of HCEI mechanisms should be accompanied by a reduction of HECO's cost of common equity between zero and 50 basis points.

b) Discuss and provide your calculations and workpapers for any adjustments to the cost of equity that could be attributed to the adoption of a Purchased Power Adjustment mechanism.

RESPONSE: See response to part (a) of this information request.

c) Discuss and provide your calculations and workpapers for any adjustments to the cost of equity that could be attributed to the adoption of a decoupling mechanism.

RESPONSE: See response to part (a) of this information request.

d) Discuss and provide your calculations and workpapers for any adjustments to the cost of equity that could be attributed to the adoption of a rate adjustment mechanism.

RESPONSE: See response to part (a) of this information request.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **DIVISION OF CONSUMER ADVOCACY'S RESPONSES TO COMMISSION'S INFORMATION REQUESTS (PUC-IR-108, 110, 111, 113, and 116)** was duly served upon the following parties, by personal service, hand delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR § 6-61-21(d).

DARCY ENDO-OMOTO VICE PRESIDENT GOVERNMENT AND COMMUNITY AFFAIRS HAWAIIAN ELECTRIC COMPANY, INC. P. O. Box 2750 Honolulu, Hawaii 96840-0001	1 copy by hand delivery
DEAN K. MATSUURA MANAGER- REGULATORY AFFAIRS HAWAIIAN ELECTRIC COMPANY, INC. P. O. Box 2750 Honolulu, Hawaii 96840-0001	1 copy by hand delivery
THOMAS W. WILLIAMS, JR., ESQ. PETER Y. KIKUTA, ESQ. DAMON L. SCHMIDT, ESQ. GOODSILL, ANDERSON, QUINN & STIFEL 1800 Alii Place 1099 Alakea Street Honolulu, Hawaii 96813 Counsel for Hawaiian Electric Company, Inc.	1 copy by hand delivery
DR. KAY DAVOODI NAVFAC HQ ACQ-URASO 1322 Patterson Avenue, S.E. Suite 1000 Washington Navy Yard Washington, DC 20374-5065	1 copy by U.S. mail

JAMES N. MCCORMICK, ESQ.
ASSOCIATE COUNSEL
NAVAL FACILITIES ENGINEERING COMMAND, PACIFIC
258 Makalapa Drive, Suite 100
Pearl Harbor, HI 96860-3134

1 copy
by U.S. mail

Counsel for Department of Defense

DATED: Honolulu, Hawaii, August 17, 2009.