

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
)
 HAWAIIAN ELECTRIC COMPANY, INC.)
)
 For Authority to Sell to the United)
 States of America, Department of)
 The Army, the Fort Shafter Flats)
 Former Oahu Railway and Land)
 Company's 40-Foot Right-of-Way.)
 _____)

DOCKET NO. 02-0202

DIV. OF CONSUMER ADVOCACY
DEPT. OF COMMERCE AND
CONSUMER AFFAIRS
STATE OF HAWAII

2003 JAN 15 P 4: 01

RECEIVED

DECISION AND ORDER NO. 19966

Filed Jan. 15, 2003
At 1:00 o'clock P .M.

Karen Higashi
Chief Clerk of the Commission

ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

K. Higashi

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
HAWAIIAN ELECTRIC COMPANY, INC.)
For Authority to Sell to the United States of America, Department of The Army, the Fort Shafter Flats Former Oahu Railway and Land Company's 40-Foot Right-of-Way.)

Docket No. 02-0202
Decision and Order No. 19966

DECISION AND ORDER

I.

On July 31, 2002, HAWAIIAN ELECTRIC COMPANY, INC. (HECO) filed an application for approval to convey a 40-foot wide parcel of land, Tax Map Key 1-1-006:008 (the Property), to the United States of America, Department of the Army (Army). HECO makes its request pursuant to Hawaii Revised Statutes (HRS) § 269-19.

HECO served the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs (Consumer Advocate) with copies of the application. On September 24, 2002, the Consumer Advocate served HECO with information requests (IRs). HECO filed its response to the IRs on October 10, 2002. By statement of position filed on October 29, 2002, the Consumer Advocate conveys that it does not object to the approval of the instant application, and provides the commission with an additional recommendation for consideration.¹

¹By letter filed on December 27, 2002, HECO provided a response to the Consumer Advocate's statement of position.

II.

A.

HECO is a Hawaii corporation and an operating public utility engaged in the production, purchase, transmission, distribution, and sale of electricity on the island of Oahu. It was first organized under the laws of the Kingdom of Hawaii on or about October 13, 1891 and now exists under and by virtue of the laws of the State of Hawaii.

The Property consists of 44,123 square feet of land, located at Moanalua, Honolulu, Oahu; and was known as the former railroad right-of-way. HECO acquired the Property for \$4,417 from Oahu Railway and Land Company on October 27, 1947, for a 138 kilovolt (kV) and a 46 kV line corridor. HECO states that the Property was always classified as utility property, and that it is currently accounted for in its rate base at the Property's purchase price.

B.

The Army first contacted HECO regarding the Property on December 21, 1995. A letter of agreement dated May 2, 1997, sets forth the negotiated amount of \$65,500 for the Property. HECO represents that the Army would be the only entity to "benefit, want, need, or use" the Property due to its long and narrow shape and the fact that it is surrounded by other Army properties. HECO contends that the negotiated price is still reasonable due to relatively stable market conditions. HECO further represents that the conveyance will not interfere

with its operations since it reserved a perpetual easement to the Property through the limited warranty deed.

HECO proposes to record the entire gain from the sale to NARUC account 253 "Other Deferred Credits" (Account 253) with a five-year amortized period in a straight-line method to utility operating income, NARUC account 414 "Gains [Losses] from Disposition of Utility Property (Account 414). It further proposes to begin the five-year amortization period in the month following the sale of the Property. HECO contends that its proposed treatment of the gains in this matter is consistent with Decision and Order No. 16935, filed on April 14, 1999, in Docket 98-0314 and other past commission directives regarding property that has been included in rate base. It states that the unamortized balance in Account 253 will be deducted from rate base.

C.

Upon completion of its review, the Consumer Advocate states that it appears that the conveyance of the Property will not negatively impact HECO's ability to serve the public since: (1) HECO will continue to have access to the facilities on the Property; and (2) the Army's facilities are not expected to damage or interfere with HECO's facilities. The Consumer Advocate also concludes that the \$65,500 purchase price for the Property is reasonable due to, among other things, the unique characteristics of the Property. However, while the Consumer Advocate recognizes that HECO's proposed treatment of the gains regarding this transaction is consistent with past

commission determinations, it recommends that the commission permit HECO to record the gains in Account 253 and amortize the full amount of the gains to Account 414 in the year of the sale. The Consumer Advocate's recommendation is based on its contention that a five-year amortization period is not reasonable for this proceeding since the impact of the gain to be recognized, approximately \$12,000 a year, is insignificant given HECO's annual net operating income. By letter filed on December 27, 2002, HECO informed the commission that it does not object to the Consumer Advocate's recommendation to allow HECO to recognize the entire gain from the sale of the Property in the year of the sale.

III.

HRS § 269-19 requires a public utility to obtain commission approval prior to, among other things, selling, leasing, or otherwise disposing of or encumbering the whole or any part of its road, line, plant, system, or other property necessary or useful in the performance of its duties to the public.

Upon careful review, the commission finds the proposed conveyance of the Property to the Army to be reasonable and in the public interest. Based on HECO's representations, the conveyance of the Property to the Army should not interfere with HECO's operations and its ability to provide utility service. The Army seems to be the only potential buyer for the Property, leading the commission, among other factors, to believe that the terms of the conveyance appear to be reasonable. Also, it

appears that there are contractual provisions in place to ensure that the conveyance will not impact the public in a negative manner.

Furthermore, we find that departure from past commission directives with regards to the recording of gains is warranted in this matter since the anticipated gains of approximately \$60,000 will only result in an amortized amount of \$12,000 a year, after applying a five-year amortization period. As the Consumer Advocate articulates, \$12,000 a year in gains is insignificant in light of HECO's annual net operating income. Thus, we find the Consumer Advocate's proposal to permit HECO to recognize the entire gain from this transaction in the year of the sale to be acceptable, with regards to this matter. We note that HECO does not object to the Consumer Advocate's recommendation.

Thus, the commission concludes that HECO's request to convey the Property to the Army should be approved, and HECO should be allowed to recognize the full amount of the gains related to this transaction in the year of the sale.

IV.

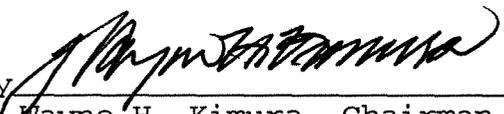
THE COMMISSION ORDERS:

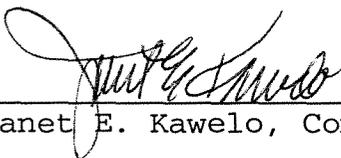
1. HECO's request to convey the Property, Tax Map Key 1-1-006:008, to the Army, as set forth in this docket, is approved.
2. Consistent with the Consumer Advocate's recommendation, HECO shall record the gains on the sale of the

Property in Account 253 and amortize the gains to Account 414 in the year in which the sale is completed.

DONE at Honolulu, Hawaii this 15th day of January, 2003.

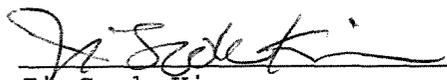
PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Wayne H. Kimura, Chairman

By 
Janet E. Kawelo, Commissioner

By _____ (RECUSED)
Gregg J. Kinkley, Commissioner

APPROVED AS TO FORM:


Ji Sook Kim
Commission Counsel

02-0202.eh

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 19966 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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DIVISION OF CONSUMER ADVOCACY
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Karen Higashi

DATED: January 15, 2003