

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
)
 MAUI ELECTRIC COMPANY, LIMITED)
)
 For Expedited Approval to Sell)
 Utility Materials to the Royal)
 Lahaina Resort.)
 _____)

DOCKET NO. 05-0200

DECISION AND ORDER NO. 22084

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

Filed Oct. 28, 2005

At 1 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)	
MAUI ELECTRIC COMPANY, LIMITED)	Docket No. 05-0200
For Expedited Approval to Sell)	Decision and Order No. 22084
Utility Materials to the Royal)	
Lahaina Resort.)	
_____)	

DECISION AND ORDER

By this Decision and Order, the commission approves MAUI ELECTRIC COMPANY, LIMITED's ("MECO") sale of a 300 kilovolt ampere ("kVA") padmount transformer ("Transformer") to the Royal Lahaina Resort ("RLR") for \$11,550.

I.

Background

On August 11, 2005, MECO requested expedited commission approval to sell the Transformer and approximately 1,000 feet of 15 kilovolt cable ("associated cable") to RLR, to enable RLR to restore commercial power to its kitchen, shops, and guest cottages after an unplanned outage caused by a broken transformer that could not be repaired.¹

¹ See MECO's letter, dated August 11, 2005 ("MECO Letter"). In the MECO Letter, which was served on the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy ("Consumer Advocate"), MECO represented that the Consumer Advocate did not oppose MECO's expedited request for interim commission approval. *Id.* at 3.

The following day, on August 12, 2005, the commission approved MECO's expedited request on an interim basis on condition that MECO file a formal application for commission approval.² The commission, however, reserved the right to review the merits of MECO's request after MECO filed its formal application.

In compliance with the interim order, on September 1, 2005, MECO filed a formal application seeking commission approval to sell the Transformer to RLR ("Application") pursuant to (1) Hawaii Revised Statutes ("HRS") § 269-19; and (2) Paragraph No. 13 of the "Conditions For the Merger and Corporate Restructuring of Hawaiian Electric Company, Inc.," attached as Exhibit A to Order No. 7256, filed on September 29, 1982, in Docket No. 4337 ("Paragraph No. 13"). In its Application, MECO explained that RLR no longer needed the associated cable or the related MECO labor for installing the Transformer and associated cable, and thus MECO limited its Application to approval of the Transformer sale and the accounting treatment of the sale as described in MECO's Application.

On October 4, 2005, the Consumer Advocate filed its Statement of Position indicating that it did not object to the commission's approval of MECO's Application as the sale of the Transformer to RLR was consistent with HRS § 269-19; and would

MECO intended to bill RLR, at cost: (1) approximately \$10,315.34 for the Transformer; and (2) \$9,596 for the associated labor and material costs. *Id.* at 2.

² Interim Order No. 21991, filed on August 12, 2005.

not negatively impact MECO's ability to provide reliable service.³ The Consumer Advocate, however, noted that it had concerns about MECO's accounting practices, but indicated that it would not oppose the Application given the small monetary amount at issue.

II.

Discussion

HRS § 269-19 provides that no public utility shall sell, lease, assign, mortgage, or otherwise dispose of or encumber 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, "without first having secured from the public utilities commission an order authorizing it so to do." "Every such sale, lease, assignment, mortgage, disposition, encumbrance . . . made other than in accordance with the order of the commission shall be void." HRS § 269-19. The purpose of HRS § 269-19 is to safeguard the public interest. *In re Honolulu Rapid Transit Co.*, 54 Haw. 402, 409, 507 P.2d 755, 759 (1973).

In addition, Paragraph No. 13 of Order No. 7256 requires prior commission approval of transfers of property that is or was in MECO's rate base. It provides:

The Utility Corporation shall not transfer any of its property which is or was in the rate base nor assume any liabilities of Industries, directly or indirectly, without the prior approval of the Commission. The determination of the transfer value and the accounting and rate-making treatment

³ Consumer Advocate's Statement of Position, filed on October 4, 2005.

thereof shall be determined by the Commission at the time of approval of such transfer.⁴

A.

Transformer Sale

In support of its Application to sell the Transformer to RLR, MECO states that:

1. On August 5, 2005, at approximately 2:40 p.m., RLR's transformer and cable serving the kitchen, shops, and guest cottages experienced an unplanned outage. RLR's inspection of the transformer on August 5, 2005, following the unplanned outage, revealed that the transformer was leaking and could not be repaired. As a temporary measure, the kitchen, shops, and guest cottages were powered by rental portable diesel generators.

2. "RLR does not carry a spare transformer or have access to one and is not able to obtain one from a local supplier. It would take approximately ten [10] to twelve [12] weeks to procure a replacement transformer from a manufacturer on the mainland. RLR does not want to continue using the portable diesel generators because the exhaust emissions blow into the hotel's lobby, shops, offices and kitchen areas. In addition, the diesel generators emit noise that guests and workers have to contend with while on the RLR property, which is not very appealing to a resort environment."⁵

⁴ "Utility Corporation" refers to MECO, while "Industries" refers to Hawaiian Electric Industries, Inc.

⁵ MECO's Application, at 3.

3. The Transformer is readily available from MECO's inventory, with MECO having a sufficient inventory of transformers to provide reliable service on its own system.

4. "Given the emergency situation and the need for [RLR] to have reliable power, the sale of the [T]ransformer to the RLR would be in the public interest."⁶

The Consumer Advocate does not object to the commission's approval of MECO's Application because:

1. MECO's sale of the Transformer to RLR appears necessary as it is the only alternative that will restore power in a timely manner to RLR with minimal adverse impact to RLR's customers.

2. MECO normally maintains in inventory four (4) spare 300 kVA transformers.⁷ Hence the sale of the Transformer will not negatively impact MECO's ability to provide reliable utility service to its customers; and (B) the sale of the Transformer to RLR should not adversely affect MECO's ratepayers.

Based on the foregoing, the commission finds that given the urgent nature of the circumstances, the unavailability of a spare transformer and the negligible impact on MECO's ability to provide service, MECO's sale of the Transformer is consistent with the public interest of timely restoring commercial electrical service to RLR's kitchen, shops, and guest cottages,

⁶ *Id.* Following the commission's interim approval, the Transformer was installed on August 17, 2005, and energized at approximately 1:00 p.m. to restore commercial service to RLR.

⁷ Consumer Advocate's Position Statement, at 5 (citing a telephone conference between personnel from MECO and the Consumer Advocate on September 29, 2005).

without undue delay. Therefore, the commission approves MECO's request to sell the Transformer to RLR.

B.

MECO's Accounting Treatment

As set forth in the Application, MECO intends to sell the Transformer to RLR for \$11,550. The Transformer is part of MECO's Utility Plant in Service.⁸ MECO will account for the transaction with RLR as a normal retirement of utility plant: (A) Utility Plant in Service will be credited for the cost of the Transformer with a corresponding debit to Accumulated Depreciation; and (B) a receivable will be recorded for the net book value of the Transformer, with a corresponding credit to Accumulated Depreciation - Salvage Value. No gain or loss will be recognized on the sale of the Transformer. The original cost and net book value of the Transformer is the same, since the Transformer was purchased in 2005.⁹

MECO states that its accounting treatment is consistent with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts ("NARUC's USOA")

⁸ "Transformers of the size requested by the RLR are pre-capitalized items. Due to the significant quantities of distribution transformers that are purchased, and the removal and re-installation that occur[s] routinely in the operation and maintenance of MECO's system, distribution transformers are routinely purchased and accounted for in bulk (recorded as plant in service in the month they are purchased)." MECO's Application, at 5, n.3.

⁹ Consumer Advocate's Position Statement, at 6, n.10 (citing a telephone conference between personnel from MECO and the Consumer Advocate on October 4, 2005).

Utility Plant Instruction No. 10(B)(2) for the retirement of utility plant.

The Consumer Advocate identifies three (3) concerns with MECO's proposed accounting treatment:

1. Until MECO's supply of transformers are relieved from inventory and actually placed into service, the transformers are not used and useful for the provision of *public* utility service. Thus, the costs of the transformers, while held as inventory, should be recorded in Account 154 - Plant Materials and Operating Supplies, and not as Plant in Service.¹⁰

2. Assuming *arguendo*, that the Transformer costs are properly recorded as Plant in Service, MECO's non-recognition of any gain or loss in the sale or disposition of a Plant in Service item is inconsistent with NARUC's USOA Plant Instruction No. 5(F), which recognizes, for accounting treatment purposes, any related gains or losses resulting from the disposition of utility property.¹¹

3. Pursuant to Ordering Paragraph No. 2(a) of Decision and Order No. 21916, filed on July 12, 2005, in Docket No. 05-0049, MECO, on a prospective basis involving the sale of plant assets, is required to explain why it is deviating from the instructions provided in NARUC's USOA.¹² Other than

¹⁰ See Consumer Advocate's Position Statement, at 6 - 7.

¹¹ See *id.* at 7.

¹² In Docket No. 05-0049, the commission approved MECO's sale of a 1,500 kVA padmount transformer to Macy's West, located at the Queen Kaahumanu Shopping Center, Wailuku, Maui. See Decision and Order No. 21916, filed on July 12, 2005.

footnote 3 of MECO's Application,¹³ MECO does not fully explain its deviation from NARUC's USOA instructions.¹⁴

That said, the Consumer Advocate notes that MECO sold the Transformer to RLR at a cost of approximately \$11,550, which represents an insignificant amount when compared to MECO's total Plant in Service of approximately \$600 million as of July 31, 2005. Thus, given the negligible impact of MECO's proposed accounting treatment in this instance on MECO's overall rate base, the Consumer Advocate states that it does not intend to pursue this matter any further at this time. However, the Consumer Advocate recommends that MECO consider modifying, on a prospective basis, its present accounting practice to conform with NARUC's USOA instructions for future transactions involving the sale or disposition of Plant in Service items.

Based on the foregoing, the commission approves, *in this instance*, MECO's proposed accounting treatment arising out of the sale of the Transformer to RLR. As discussed in Decision and Order No. 21916, MECO, however, must provide in future applications to the commission, if applicable: (1) its reasoning why it should deviate from the instructions provided in the NARUC USOA; and (b) its proposed accounting entries and the associated accounts and amounts for such proposed sales, to facilitate in the analysis of the accounting of the transaction.

¹³ See n.8, above.

¹⁴ See Consumer Advocate's Position Statement, at 8.

III.

Orders

THE COMMISSION ORDERS:

1. MECO's request to sell the Transformer to RLR, as described in its Application, is approved.

2. MECO's accounting treatment arising out of the sale of the Transformer to RLR is approved. In future applications involving the sales of assets, MECO shall provide the commission with, if applicable: (a) its reasoning why it should deviate from the instructions provided in the NARUC USOA; and (b) its proposed accounting entries and the associated accounts and amounts for such proposed sales, to facilitate in the analysis of the accounting of the transaction.

3. This docket is closed, unless ordered otherwise by the commission.

DONE at Honolulu, Hawaii OCT 28 2005.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By Carlito P. Caliboso
Carlito P. Caliboso, Chairman

By (EXCUSED)
Wayne H. Kimura, Commissioner

APPROVED AS TO FORM:

By Janet E. Kawelo
Janet E. Kawelo, Commissioner

Catherine P. Awakuni
Catherine P. Awakuni
Commission Counsel

05-0200.eh

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 22084 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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DATED: OCT 28 2005