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

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
)
HAWAIIAN ELECTRIC COMPANY, INC.)
HAWAII ELECTRIC LIGHT COMPANY, INC.)
MAUI ELECTRIC COMPANY, LIMITED)
)
For Approval of Recovery of 1995)
IRP Planning Costs Through Each)
Company's IRP Recovery Provision)
)

DOCKET NO. 94-0316

In the Matter of the Application of)
)
HAWAIIAN ELECTRIC COMPANY, INC.)
HAWAII ELECTRIC LIGHT COMPANY, INC.)
MAUI ELECTRIC COMPANY, LIMITED)
)
For Approval of Recovery of 1996)
IRP Planning Costs Through Each)
Company's IRP Recovery Provision)
)

DOCKET NO. 95-0362

In the Matter of the Application of)
)
HAWAIIAN ELECTRIC COMPANY, INC.)
HAWAII ELECTRIC LIGHT COMPANY, INC.)
MAUI ELECTRIC COMPANY, LIMITED)
)
For Approval of Recovery of 1997)
IRP Planning Costs Through Each)
Company's IRP Recovery Provision)
)

DOCKET NO. 96-0431

In the Matter of the Application of)
)
HAWAIIAN ELECTRIC COMPANY, INC.)
HAWAII ELECTRIC LIGHT COMPANY, INC.)
MAUI ELECTRIC COMPANY, LIMITED)
)
For Approval of Recovery of 1998)
IRP Planning Costs Through Each)
Company's IRP Recovery Provision)
)

DOCKET NO. 97-0358

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

K. Higashi

In the Matter of the Application of)

HAWAIIAN ELECTRIC COMPANY, INC.)

HAWAII ELECTRIC LIGHT COMPANY, INC.)

MAUI ELECTRIC COMPANY, LIMITED)

For Approval of Recovery of 1999)

IRP Planning Costs Through Each)

Company's IRP Recovery Provision)

DOCKET NO. 98-0339

(CONSOLIDATED)

DECISION AND ORDER NO. 23160

Filed Dec. 27, 2006

At 1 o'clock P.M.

Karen Higest.

Chief Clerk of the Commission

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)

HAWAIIAN ELECTRIC COMPANY, INC.)
HAWAII ELECTRIC LIGHT COMPANY, INC.)
MAUI ELECTRIC COMPANY, LIMITED)

Docket No. 94-0316

For Approval of Recovery of 1995)
IRP Planning Costs Through Each)
Company's IRP Recovery Provision)

In the Matter of the Application of)

HAWAIIAN ELECTRIC COMPANY, INC.)
HAWAII ELECTRIC LIGHT COMPANY, INC.)
MAUI ELECTRIC COMPANY, LIMITED)

Docket No. 95-0362

For Approval of Recovery of 1996)
IRP Planning Costs Through Each)
Company's IRP Recovery Provision)

In the Matter of the Application of)

HAWAIIAN ELECTRIC COMPANY, INC.)
HAWAII ELECTRIC LIGHT COMPANY, INC.)
MAUI ELECTRIC COMPANY, LIMITED)

Docket No. 96-0431

For Approval of Recovery of 1997)
IRP Planning Costs Through Each)
Company's IRP Recovery Provision)

In the Matter of the Application of)

HAWAIIAN ELECTRIC COMPANY, INC.)
HAWAII ELECTRIC LIGHT COMPANY, INC.)
MAUI ELECTRIC COMPANY, LIMITED)

Docket No. 97-0358

For Approval of Recovery of 1998)
IRP Planning Costs Through Each)
Company's IRP Recovery Provision)

In the Matter of the Application of)
HAWAIIAN ELECTRIC COMPANY, INC.)
HAWAII ELECTRIC LIGHT COMPANY, INC.)
MAUI ELECTRIC COMPANY, LIMITED)
For Approval of Recovery of 1999)
IRP Planning Costs Through Each)
Company's IRP Recovery Provision)

Docket No. 98-0339

(Consolidated)

Decision and Order No. 23160

DECISION AND ORDER

By this Decision and Order, the commission approves HAWAIIAN ELECTRIC COMPANY, INC. ("HECO"), HAWAII ELECTRIC LIGHT COMPANY, INC. ("HELCO") and MAUI ELECTRIC COMPANY, LIMITED's ("MECO") (collectively, "Applicants") recovery of their 1995 integrated resource plan ("IRP") planning costs, to the extent described herein.

I.

Background

HECO is a corporation duly organized under the laws of the Kingdom of Hawaii and now existing under and by virtue of the laws of the State of Hawaii. It is an operating public utility engaged in the production, purchase, transmission, distribution and sale of electric energy on the island of Oahu.

HELCO is a corporation duly organized under the Republic of Hawaii, now existing under and by virtue of the laws of the State of Hawaii. It is an operating public utility engaged in the production, purchase, transmission, distribution and sale of electric energy on the island of Hawaii.

MECO is a corporation duly organized under the laws of the Territory of Hawaii, and now exists under and by virtue of the laws of the State of Hawaii. It is an operating public utility engaged in the production, purchase, transmission, distribution and sale of electric energy on the islands of Maui, Lanai and Molokai.

A.

Application

On November 1, 1994, Applicants filed an Application for Approval of Recovery of 1995 IRP Planning Costs Through Each Company's IRP Cost Recovery Provision in which they requested commission approval of their budgets for 1995 IRP planning costs and the subsequent recovery of those costs ("Application").¹ Applicants requested approval of: (1) HECO's annual, incremental 1995 IRP budget, estimated to be \$1,462,111 and subsequent recovery of its 1995 IRP planning costs actually spent in 1995; (2) HELCO's annual, incremental 1995 IRP budget, estimated to be \$710,954, and subsequent recovery of its 1995 IRP planning costs actually spent in 1995; and (3) MECO's annual, incremental

¹Applicants served a copy of the Application on the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate"), an ex officio party to this docket, pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62. Applicants also served a copy of the Application on the Department of Navy on behalf of the United States Department of Defense ("DOD"), who had moved to intervene, and had become a party to Applicants' previous IRP planning costs dockets. DOD, however, did not move to intervene in this docket, and thus is not a party to this docket. See Order No. 17983, filed on August 25, 2000, at 2 n. 1. Accordingly, Applicants and the Consumer Advocate are collectively referred to as the "Parties."

1995 IRP budget, estimated to be \$1,472,367, and subsequent recovery of its 1995 IRP planning costs actually spent in 1995.²

For HECO, commission approval was requested pursuant to Decision and Order No. 11317, filed on October 17, 1991, in Docket No. 6531 (HECO's 1990 Rate Case), and Decision and Order No. 11699, filed on June 30, 1992, in Docket No. 6998 (HECO's 1992 Rate Case). HELCO requested commission approval pursuant to Decision and Order No. 10993, filed on March 6, 1991, in Docket No. 6432 (HELCO's 1990 Rate Case), and Decision and Order No. 11893, filed on October 2, 1992, in Docket No. 6999 (HELCO's 1992 Rate Case). MECO filed its request pursuant to Decision and Order No. 13429, filed on August 5, 1995, in Docket No. 7000 (MECO's 1992 Rate Case). Applicants also requested commission approval pursuant to Paragraph II.B.7 of the Framework for Integrated Resource Planning dated May 22, 1992 ("IRP Framework").

1.

Annual Incremental IRP Budgets

In their Application, Applicants requested approval of HECO's "annual, incremental 1995 budget," which is an estimate of HECO's 1995 IRP planning costs above amounts recovered in base rates that have been previously approved by the commission and

²On March 29, 1996, Applicants filed their recorded 1995 IRP planning costs, which they subsequently revised in their May 18, 1999 response to the Consumer Advocate's Statement of Position ("Applicants' Response"), and which was agreed to in the Parties' Stipulation Regarding Hearing and Commission Approval, filed on July 17, 2000 ("Stipulation") as follows: HECO - \$950,549; HELCO - \$652,389; and MECO - \$1,127,461.

which were in effect in 1995. HECO's "annual, incremental 1995 budget" estimate was \$1,462,111. HECO's "incremental" IRP planning costs included those labor expenses and non-labor expenses above the amounts allowed in Decision and Order No. 11699, filed on June 30, 1992, in Docket No. 6998, and Interim Decision and Order No. 13169, filed in Docket No. 7700.

HELCO's "annual, incremental 1995 budget" estimate for IRP planning costs not recoverable through its base rates in effect in 1995 was \$710,954. HELCO's "incremental" IRP planning costs included labor expenses not included in Decision and Order No. 11893, filed on October 2, 1992, in Docket No. 6999, and Interim Decision and Order No. 13431, filed in Docket No. 7764.³

MECO's "annual, incremental 1995 budget" estimate for IRP planning costs not recoverable through its base rates in effect in 1995 was \$1,472,367. MECO's base rates do not include any IRP planning costs, since IRP planning costs were not included in the 1992 or 1993 proposed test year expenses in MECO's 1992 rate case, Docket No. 7000.⁴

³Applicants state that no IRP-related non-labor expenses were included in HELCO's proposed test year expenses in Docket Nos. 6999 and 7764. Application at 6.

⁴In the 1995 IRP budget, Applicants changed their method of cost recovery with respect to IRP planning activities. Their revised position is to recover the labor cost of existing employees through base rates, and to recover all non-labor costs and the costs of future employees through the IRP cost recovery provision. Application at 7.

2.

Coordination of Applicants' IRP Efforts

Applicants state that HECO's IRP effort is coordinated by HECO's Generation Planning Department, and is primarily provided by five departments (Generation Planning, Rate and Regulatory Affairs, Energy Services, Engineering, and Corporate Relations), and four advisory groups. IRP efforts for HELCO and MECO are coordinated by their respective Customer Service Departments, with the assistance of various HELCO and MECO departments along with the five HECO departments noted above. HELCO and MECO each have one advisory group.

a.

HECO Generation Planning Department

As described in the Application, the HECO Generation Planning Department is responsible for coordinating the Applicants' overall IRP processes and performing integration analyses for each of the Applicants' respective IRP resource plans.

The IRP Division of HECO's Generation Planning Department is responsible for coordinating Applicants' overall integrated resource planning efforts. It also develops analytical methodologies for evaluating alternative IRP plans. This process includes analyses from various perspectives, i.e., utility costs, ratepayer impact, participant impact, total resource cost, and societal cost.

The Generation Planning Division of HECO's Generation Planning Department is primarily responsible for the integration function of the IRP process, which includes the technical evaluations of the various supply-side and demand-side resource options that are components of the IRP plan.

According to Applicants, the annual, incremental 1995 IRP budget for the HECO Generation Planning Department includes in-house direct labor costs for an IRP Engineer to be hired in 1995, which will be allocated 40% to HECO, 30% to HELCO and 30% to MECO. It also includes consultant costs to assist in optimizing the integration analysis process, the annual update of the IRP plan, and the development of quantifying external costs and benefits. Other incremental costs include computer production and software licensing expenses, and IRP-related training and travel costs.

b.

HECO Rate and Regulatory Affairs Department

The HECO Rate and Regulatory Affairs Department is responsible for the sales and system peak forecasting portion of HECO's IRP process, as well as the load research, cost-of-service, and rate design efforts related to IRP. The Rate and Regulatory Affairs Department also provides technical support to HELCO and MECO's forecasting efforts and directs the activities of the HECO Forecasting Advisory Group.

According to Applicants, the annual, incremental 1995 IRP budget for the HECO Rate and Regulatory Affairs

Department includes consultant costs for the development, implementation, and evaluation of economic models used in HECO's end-use sales and peak forecast, IRP-related training costs and outside legal services for commission dockets related to IRP general planning.

c.

HECO Energy Services Department

The HECO Energy Services Department is responsible for planning, developing, implementing and monitoring the Applicants' Demand-Side Management ("DSM") Programs. The Energy Services Department also leads the activities of the HECO DSM Advisory Group.

The annual, incremental 1995 IRP budgets for HELCO and MECO include the labor costs for a DSM Analyst, to be hired in 1995, whose time will be allocated 50% to HELCO and 50% to MECO. The annual, incremental 1995 IRP budget for the HECO Energy Services Department includes funding for consultants and contract employees to provide regulatory support for the annual IRP plan update, program application hearings, and assistance in the development of Hawaii-specific market and customer data needed for the next IRP cycle. These include on-site data gathering, audits of commercial and industrial customers, end-use metering of customer equipment, customer surveys and related tasks. The annual incremental budget also includes IRP-related training and travel costs, materials, and ISD services to support the IRP planning activities of the department.

d.

HECO Engineering Department

The HECO Engineering Department is responsible for providing the Supply-Side Resource Assessment for the Applicants' respective IRP processes. It is also responsible for directing the activities of the Supply-Side Resource Option Advisory Group and supports HELCO's and MECO's Supply-Side Resource Option planning, development and implementation for their respective IRP resource plans.

The HECO Engineering Department's annual, incremental 1995 IRP budget includes funding for consultants to assist in "follow-on work" related to the HECO, HELCO and MECO Supply-Side Resource Option Portfolio Development reports. Its billable IRP work for HELCO and MECO includes consultant costs to complete generation resource studies in such areas as renewable energy, dispersed generation, biomass, and pumped storage hydroelectric.

e.

HECO Corporate Relations Department

The HECO Corporate Relations Department is responsible for developing and implementing a communication plan to provide media and public information support for Applicants' respective public information efforts.

The annual incremental 1995 IRP budget for the HECO Corporate Relations Department includes non-labor costs for media announcements of the IRP plan and public information meetings.

f.

HELCO Customer Service Department

The HELCO Customer Service Department is responsible for planning, developing, and implementing HELCO's IRP, with the assistance of the HECO Generation Planning Department, in addition to the assistance it receives from HECO's Rate and Regulatory Affairs, Energy Services, Engineering, and Corporate Relations Departments, as described above.

The annual, incremental 1995 IRP budget for the HELCO Customer Service Department includes labor and overhead costs for a Data Analyst to conduct load studies and assist in preparing the sales and peak forecasts, and an IRP Aide to assist in the coordination of IRP activities and report preparation. The annual, incremental budget also includes the non-labor costs related to coordinating the IRP plan development, Advisory Group, public education activities, and inter-company activities. The non-labor costs include advisory group facilitator and transcribing services, room rental for advisory group meetings, photocopying costs, and outside legal services for commission dockets related to IRP general planning.

g.

HELCO Distribution Department

The HELCO Distribution Department is responsible for installing and maintaining meters and load research recorders that are used for data acquisition purposes related to the IRP process. The annual, incremental 1995 IRP budget for the HELCO

Distribution Department includes funding for meter and load research recorders related to the IRP process.

h.

MECO Customer Service Department

MECO's Customer Service Department is responsible for planning, developing and implementing MECO's IRP, with the assistance of the HECO Generation Planning Department, Rate and Regulatory Affairs, Energy Services, Engineering, and Corporate Relations Departments, as described above.

The annual, incremental 1995 IRP budget for the MECO Customer Service Department includes labor costs for an existing Director of IRP/DSM, an IRP Administrator, a DSM Administrator, and an IRP/DSM clerk. Seventy-five percent of the labor costs for the IRP/DSM clerk position will be allocated to IRP general planning activities, with the remaining labor costs allocated to other customer service activities. Applicants state that if any of MECO's DSM programs are approved in 1995, MECO will allocate a portion of the labor costs for the IRP/DSM Clerk and DSM Administrator positions to these programs, resulting in lower actual charges of labor costs to IRP general planning activities.

The annual, incremental 1995 IRP budget for the MECO Customer Service Department includes funding for interisland travel expenses that will be incurred by IRP staff and IRP Advisory Group members. In addition, funds were also included for outside legal services for commission dockets related to IRP general planning.

3.

Recovery of IRP Planning Costs

Applicants propose to recover their 1995 IRP planning costs through their respective IRP cost recovery provisions, which provide for cost recovery through a percentage surcharge applicable to base revenues.⁵ Applicants state that the amount of the surcharge is determined by dividing the total costs and related taxes for the calendar year to be recovered through the surcharge by the base revenues for the same period. Any variance between the revenue collected and the costs to be recovered will be reconciled on a quarterly basis, lagged two months.⁶

B.

Consumer Advocate's Statement of Position

On June 1, 1998, the Consumer Advocate filed its Statement of Position in the instant docket ("Statement of Position"). In drafting its Statement of Position, the Consumer Advocate reviewed the following documents filed in the instant proceeding: (1) the Application; (2) Applicants' responses to the Consumer Advocate's information requests ("IRs") dated January 29, 1996; (3) Applicants' recorded 1995 IRP planning expenditures, dated March 29, 1996; (4) Applicants' recorded 1995 planning expenditures, dated April 11, 1996; (5) Applicants' responses to the Consumer Advocate's supplemental

⁵Applicants included examples of their IRP cost recovery provisions in Attachments D, E and F to the Application.

⁶Application at 13.

IRs dated March 4, 1997; and (6) Applicants' responses to the Consumer Advocate's second supplemental IRs dated June 5, 1997.

As described in its Statement of Position, the Consumer Advocate had three general concerns with Applicants' 1995 IRP planning expenditures relating to: (1) the classification of DSM program costs as IRP general planning costs; (2) the treatment of incremental IRP labor costs (including incremental IRP positions and contracted labor), where positions approved in the most recent rate case are vacant; and (3) the inconsistent classification of cost items and cost tracking issues.

In addition, the Consumer Advocate had specific concerns with the proposed cost recovery of certain expenditures, and recommended that Applicants' cost recovery for seventeen specific items be reduced in total by \$99,956 for HECO, \$44,189 for HELCO and \$226,727 for MECO. These proposals were based on a consideration of: (1) whether the identified costs were directly required for the development of an IRP; (2) whether the costs were incremental IRP planning costs, i.e., costs in excess of system planning costs which were identified and recovered through base rates; and (3) if the items or services could be used in corporate functions other than the development of the IRP plan, whether the costs should be prorated to ensure that cost recovery through the IRP recovery process is limited to only that portion related to IRP plan development. In particular, the Consumer Advocate considered: (1) whether IRP cost recovery was being requested for expenses already included in base rates;

(2) whether IRP cost recovery was requested for non-IRP expenditures; and (3) whether cost recovery was being requested for non-incremental expenditures, i.e., items or services which pre-date the IRP.

C.

Applicants' Response to the
Consumer Advocate's Statement of Position

On May 18, 1999, Applicants filed their response to the Consumer Advocate's Statement of Position ("Applicants' Response") in which they respond to the Consumer Advocate's general concerns and specific cost adjustments. With regard to the Consumer Advocate's specific recommended reductions, Applicants agreed to reductions of \$3,444.72 for HECO, \$3,833.38 for HELCO and \$1,345,35 for MECO,⁷ and accordingly, revised their IRP cost recovery requests to \$950,549 for HECO, \$652,389 for HELCO and \$1,127,461 for MECO.⁸

As to the remaining costs items for which Applicants and the Consumer Advocate disagree, Applicants argue that they incurred similar expenses for their 1994 IRP planning costs, which were approved by the commission in Order No. 14737, filed on June 19, 1996, in Docket No. 7931. In that instance, the

⁷The reductions were comprised as follows: 1) Item 1, Sales and Load Forecasting -- HECO \$402.72, HELCO \$503.38, MECO \$503.35; Item 2, Training and Travel Costs -- HECO \$2,909; 3) Item 3, Training and Travel Costs -- HELCO \$842.00, MECO \$842.00; 4) Item 4, Training Costs -- HECO \$133.00; 5) Item 8, Training Costs -- HELCO \$300; and 6) Item 11, Legal Costs - HELCO \$2,188.00.

⁸See Applicants' Response at 2.

Consumer Advocate did not file a motion for reconsideration of the cost recovery for the 1994 IRP planning costs. Applicants also assert that the Consumer Advocate had an earlier opportunity to address its concerns regarding Applicants' proposed cost recovery, i.e., at the time the budget was filed on November 1, 1994, which suggested to Applicants that these costs were reasonable and would be permitted full cost recovery.

D.

Stipulation

On July 17, 2000, the Parties⁹ filed a Stipulation Regarding Hearing and Commission Approval ("Stipulation") in which the Parties note that Applicants had filed their 1995, 1996, 1997, 1998 and 1999 IRP planning costs budgets. To minimize the accrual of interest on unrecovered 1995-1999 IRP planning costs while the Consumer Advocate was undertaking discovery to ascertain the reasonableness of those costs, the Parties stipulated to the following:

(1) the Parties do not request an evidentiary hearing in the IRP planning costs dockets;

(2) the Parties do not object to commission approval of Applicants' proposed budgets for 1995-1999 IRP planning costs;

(3) the Parties do not object to the immediate recovery of HECO's recorded 1995-1999 IRP planning costs, as revised, over

⁹The DOD was also a party to the Stipulation. However, as noted supra, the DOD is not a party to this docket. See Order No. 17983, filed on August 25, 2000, at 2 n.1.

a twelve-month period pending issuance of the commission's final decision and order on the matter;

(4) the Parties do not object to the immediate recovery of HELCO and MECO's recorded 1995 and 1996 IRP planning costs, as revised, over a twelve month period, and the recovery of HELCO and MECO's recorded 1997-1999 IRP planning costs, as revised, over a succeeding twelve month period following the recovery of the revised 1995 and 1996 IRP planning costs pending issuance of the commission's final decision and order on the matter;

(5) Applicants will refund to their customers, with interest at the rate applicable to deferred IRP planning costs, any previously recovered IRP planning costs subsequently disallowed by the commission in its final decision and order in these proceedings;

(6) the Parties will work expeditiously to complete their respective discovery in Docket No. 94-0316 (1995 IRP planning costs), Docket No. 95-0362 (1996 IRP planning costs), Docket No. 96-0431 (1997 IRP planning costs), Docket No. 97-0358 (1998 IRP planning costs), and Docket No. 98-0339 (1999 IRP planning costs) and issue statements of position on the reasonableness of Applicants' 1995-1999 IRP planning costs to facilitate the commission's rendering of its final decision and order in these proceedings;

(7) Applicants will perform a reconciliation of the amounts recovered with the actual IRP planning costs proposed to be recovered and adjust any over/under collection in the following year; and

(8) the Parties do not waive their right to request reconsideration of, or appeal from, the commission's final decision and orders.

E.

Order No. 17983

By Order No. 17983, filed on August 25, 2000 ("Order No. 17983"), the commission approved the proposed agreements and conditions of the Stipulation, and incorporated the terms and conditions of the Stipulation into the order.

As an initial matter, Order No. 17983 consolidated Applicants' separate requests for approval of their 1995, 1996, 1997, 1998 and 1999 IRP planning costs budgets in Docket Nos. 94-0316, 95-0362, 96-0431, 97-0358, and 98-0339, respectively.¹⁰

Order No. 17983 also approved the proposed IRP budgets for Applicants' 1995-1999 IRP planning costs, as described in the applications filed in Docket Nos. 94-0316, 95-0362, 96-0431, 97-0358, and 98-0339, subject to the agreements and conditions set forth in the Stipulation. Applicants were allowed to immediately commence recovery of their recorded 1995-1999 IRP planning costs (including interest on deferred costs and associated revenue taxes), as revised, using their IRP cost recovery provisions, subject to the agreements and conditions set forth in the Stipulation and in Order No. 17983. However,

¹⁰Although consolidated under Order No. 17983, the commission will consider each docket separately in making a final determination on each year's recovery of IRP planning costs.

Applicants' recovery of their recorded IRP planning costs were subject to refund, pending further review and the issuance of the commission's final decision and order.¹¹

Specifically, with respect to the 1995 IRP planning costs (Docket No. 94-0316), the Parties agreed to allow HECO to recover IRP costs of \$950,549; HELCO to recover IRP costs of \$652,389; and MECO to recover IRP costs of \$1,127,461 (excluding interest).¹²

II.

Discussion

By Decision and Order No. 11523, filed on March 12, 1992, in Docket No. 6617 (as amended by Decision and Order No. 11630, filed on May 22, 1992), the commission established an IRP Framework and ordered HECO, HELCO and MECO to develop integrated resource plans in accordance with the IRP Framework.

Section II.B.7 of the IRP Framework provides, in relevant part, that utilities "are entitled to recover all appropriate and reasonable integrated resource planning and implementation costs." Section III.F.1 of the IRP Framework provides, in relevant part, that a utility "is entitled to recover its integrated resource planning and implementation costs that are reasonably incurred, including the costs of planning and

¹¹Order No. 17983 at 6.

¹²These amounts are consistent with Applicants' revised figures filed in their Response to the Consumer Advocate's Statement of Position.

implementing pilot and full-scale demand-side management programs."

As described by the commission:

Integrated resource planning costs appear to fall into at least two major categories: (1) the costs of planning and (2) the costs of implementing particular options. The costs of planning include those associated with the development of the framework for planning and those associated with the planning process. Included in these costs are the costs of data gathering, development of models, and research and development of options in meeting the demand for energy. The costs of implementing particular options include the costs of particular programs or projects selected to satisfy the demand for energy.

With respect to the first category of costs, we will require HECO to develop an annual budget of the costs it proposes to include in the IRP clause. HECO shall submit this budget to the commission for approval. The utility shall also furnish the commission with an accounting of expenditures and a report on the variance between the budget and actual expenditures before any cost is included in the IRP clause. With respect to the second category of costs, we will require HECO to present its proposed program or project to the commission for prior approval, together with information concerning the expenses expected to be incurred, in much the same manner as it is required to do, under General Order No. 7, rule 2.3.g.2, for proposed capital expenditures in excess of \$500,000.

Although we approve the establishment of an IRP clause, we retain the authority to determine whether any particular cost or expense may be recovered through the clause. The IRP clause may not be the proper mechanism for the recovery of all integrated resource planning costs. Particularly with respect to program or project costs, legitimate questions may be raised as to whether such costs should be recovered through an IRP clause or whether they should be included in HECO's rate base. The commission retains the authority to make that determination on a case-by-case basis.

Decision and Order No. 11317, filed on October 17, 1991, in Docket No. 6531, at 210-11.¹³

A.

Consumer Advocate's General Concerns

In its Statement of Position, the Consumer Advocate described three general concerns it had with Applicants' 1995 IRP planning expenditures, as well as specific concerns it had with the proposed cost recovery of certain expenditures. The Consumer Advocate's general concerns relate to: 1) the classification of DSM program costs as IRP general planning costs; 2) the treatment of incremental IRP labor costs where positions in the most recent rate case are vacant; and 3) the inconsistent classification of cost items and cost tracking issues.

1.

Classification of DSM Program Costs as IRP General Planning Costs

The Consumer Advocate contends that all DSM program specific costs incurred prior to receiving commission approval should be accounted for as IRP general planning costs. According to the Consumer Advocate, Applicants account for all costs associated with supply-side resource projects as part of the total project cost, while classifying all costs related to DSM

¹³By Decision and Order No. 21002, filed on May 27, 2004, in Docket No. 03-0257, the commission ordered that effective July 1, 2004, G.O. No. 7.g.2 be modified by raising the minimum threshold of \$500,000 to \$2.5 million, excluding customer contributions.

planning and development incurred prior to commission approval of the DSM program as IRP general planning costs. The Consumer Advocate contends that the costs incurred to plan and develop a specific DSM program are no different than the costs to plan and develop a supply-side resource project, and should be accounted for in a similar fashion. In addition, the Consumer Advocate is concerned that the recording of DSM program-specific costs as IRP general planning costs results in an understatement of the actual costs of the commission-approved DSM programs. Using understated program-specific costs to calculate program cost effectiveness and shareholder incentives leads to overstating the program benefit cost ratios, the net program savings and the shareholder incentives for each approved DSM program. Accordingly, the Consumer Advocate recommends that the commission direct the Applicants to identify and record the actual DSM program-specific expenditures included in the IRP planning cost docket as either DSM general planning or DSM program-specific costs, and recommends that Applicants be required to account for all DSM program-specific expenditures as DSM program costs regardless of whether the costs were incurred before or after commission approval of the specific DSM program. With regard to cost recovery of DSM program-specific expenditures incurred prior to commission approval of the DSM program, the Consumer Advocate does not object to the current practice of recovering program-specific costs through the annual IRP planning cost dockets.

In response, HECO argues that the accounting treatment for supply-side planning costs and DSM planning costs are different as supply-side planning costs are capitalized in accordance with Generally Accepted Accounting Principles, while DSM planning costs do not become part of a depreciable asset and therefore are expensed on an annual basis. Although it is Applicants' position that all DSM planning and program development costs incurred prior to commission approval of the specific DSM program be expensed as DSM planning costs, Applicants propose to modify their internal "cutoff" for identification of DSM program costs to identify legal and consultant costs incurred from the date when the Applicants file a DSM program application for approval with the commission, as DSM program costs. Applicants agree with the Consumer Advocate that the current practice of recovering program-specific DSM costs through the annual IRP planning cost dockets is the appropriate mechanism to recover these DSM costs.

As noted by the Consumer Advocate, the commission is concerned that the Applicants' method of recording DSM program-specific costs as IRP general planning costs may result in an understatement of the actual costs of the commission-approved DSM programs, which, could, in turn, lead to overstating the program benefit cost ratios, the net program savings and the shareholder incentives for each approved DSM program. Accordingly, the commission will direct the Applicants on a going forward basis to identify and record the actual DSM program-specific expenditures included in their IRP planning cost

dockets as either DSM general planning or DSM program-specific costs, and account for all DSM program-specific expenditures as DSM program costs regardless of whether the costs were incurred before or after commission approval of the specific DSM program.

With regard to the cost recovery of DSM program-specific expenditures incurred prior to commission approval of the DSM program, the commission agrees with the Applicants and the Consumer Advocate that DSM program-specific expenditures incurred prior to commission approval of the DSM program should be recovered through Applicants' annual IRP planning cost dockets.

2.

Treatment of Incremental IRP Labor Costs

The Consumer Advocate states that it has difficulty ascertaining whether the labor costs proposed to be recovered through the IRP cost recovery provision are "incremental" to the labor costs already recovered in base rates. According to the Consumer Advocate, the labor costs for IRP positions filled during the test year of a rate proceeding are recovered in the Applicants' base rates; while the labor costs of IRP positions that are vacant during the test year of a rate case are recovered through the IRP cost recovery surcharge should the position be filled subsequent to the test year. As such, the Consumer Advocate argues that a double recovery could occur if Applicants were to recover, through the IRP cost recovery surcharge, labor costs for "incremental" IRP positions that are

allegedly not included in base rates, while continuing to recover the labor costs for positions, which may remain or become vacant or are eliminated subsequent to a rate case through base rates. This may result in the potential recovery of direct, indirect or "contract" labor costs through the IRP cost recovery provision while there are approved, but unfilled, positions with the company. Accordingly, the Consumer Advocate recommends that the Applicants be directed to demonstrate that the labor costs for which it seeks recovery through the IRP cost recovery surcharge are indeed incremental to the costs already included in base rates.

In response to the Consumer Advocate's general concern, Applicants detail HELCO and MECO's incremental labor costs (HECO did not incur any incremental labor costs for IRP planning in 1995) and stated their disagreement with any inference that they are engaging in an intentional manipulation of labor costs to obtain a double recovery.

While there is no indication that Applicants intentionally manipulate their labor costs to obtain a double recovery, the commission is cognizant of the Consumer Advocate's concern over its inability to independently determine Applicants' incremental labor costs. As such, the commission will grant the Consumer Advocate's request and direct Applicants to demonstrate that the labor costs for which they seek recovery through their IRP cost recovery provisions are indeed incremental to the costs already included in base rates on a going forward basis.

Classification of Cost Items and Cost Tracking Concerns

The Consumer Advocate argues that Applicants appear to disagree among each other as to what costs are incremental IRP costs and lack consistency in identifying and categorizing incremental IRP costs. Applicants dispute any disagreement as to what are appropriate incremental IRP planning costs, but admit that they have accounted for and coded similar costs differently between them. As recommended by the Consumer Advocate, the Applicants have agreed to improve the consistency in their coding of IRP planning costs.

In addition, the Consumer Advocate notes that HELCO is seeking IRP cost recovery for services provided by Synergic Resources Corporation ("SRC") totaling \$93,653, which was incurred in 1992 and 1993 and was purportedly overlooked by HELCO's accounting system. The Consumer Advocate does not oppose the recovery of the SRC costs, but recommends disallowance of the applicable carrying charges for the SRC expense for the two year period.

Applicants contend that the SRC invoices were not overlooked and were instead coded to a HELCO deferred IRP account, and thus HELCO should be entitled to recover applicable carrying charges to account for the funds HELCO was out-of-pocket while the SRC invoices were outstanding.

As it appears that HELCO deferred the SRC expense on its own initiative, the commission finds insufficient basis to allow the carrying charges related to the SRC invoices.

Accordingly, the commission will disallow the applicable carrying charges for the SRC expense for the two year period.

B.

Specific Cost Recovery of Certain Expenditures¹⁴

In addition to the three general concerns articulated above, the Consumer Advocate also identified seventeen specific concerns it had with the proposed cost recovery of certain expenditures.

1.

Item 1 - Sales and Load Forecasting Costs

The Consumer Advocate contends that work and data services provided by Tucson Economic Consulting, Alphametrics, Ceridian and DRI/McGraw Hill have corporate applications beyond development of an IRP plan, and should therefore be prorated to reflect only that portion applying to the development of an IRP plan.¹⁵ According to the Consumer Advocate, as long-range forecasts for IRP planning are required once every three years, only one-third of the forecasting costs should be allowed as incremental and two-thirds of the expenses should be disallowed. Therefore, the Consumer Advocate proposes an \$8,217 reduction for HECO, a \$13,485 reduction for HELCO and a \$15,009 reduction for

¹⁴Those items on which complete agreement by the Parties was not reached regarding the appropriate IRP cost recovery are Item Nos. 1, 4, 5, 6, 7, 9, 10, 12, 13, 14, 15, 16 and 17. With regard to the remaining items, Applicants agreed with the recommendations made by the Consumer Advocate.

¹⁵Statement of Position at 3.

MECO for work done for sales and load forecasting. HECO, HELCO and MECO originally requested cost recovery of \$171,118, \$74,460 and \$71,301, respectively.

In response, Applicants state that, with the exception of Ceridian, whose consultant costs will be removed from Applicants' request (as they were incurred prior to the IRP planning process, were included in base rates, and were incorrectly classified), the consultants were retained "solely" to comply with the commission's IRP Framework requirements, specifically the detailed forecast data required by Section IV.A of the IRP Framework.¹⁶ Applicants contend that the application of IRP forecasts cannot be reasonably limited to just the year in which the forecast is developed, or in which the IRP plan is filed, and that the planning process involves "continuous enhancement of the models, data collection to keep the models current, and improvements to the IRP forecast planning methodology."¹⁷ Thus, Applicants argue that the Consumer Advocate's proposal to reduce Applicants' recovery by two-thirds is unjustified.

The commission agrees with Applicants that the IRP planning process is ongoing and cannot be limited to the year that an IRP forecast is developed. Notwithstanding Applicants' use of this forecasting for other corporate applications, the

¹⁶Applicants assert that prior to the IRP Framework, their "needs for economic forecasts were met by economic projections from local economists and [the Department of Business, Economic Development and Tourism]." Response to Statement of Position, Exhibit B at 2.

¹⁷Response to Statement of Position, Exhibit B at 2.

sales and load forecasting described above were initiated primarily to comply with the commission's IRP Framework and is reasonably related to IRP planning. The commission views the hiring of consultants to be reasonable for meeting the energy needs of the public and finds that Applicants' costs for Item No. 1, Sales and Load Forecasting, are reasonable and appropriate. Accordingly, the commission concludes that Applicants' request for recovery of \$170,715.28 for HECO, \$73,956.62 for HELCO and \$70,797.65 for MECO through their IRP cost recovery provisions, should be approved.

2.

Item No. 2 - Training and Travel Costs (HECO)

The Consumer Advocate recommends disallowing certain training, travel, and meals expenses arguing they are not an incremental IRP costs, are for basic corporate training with broad application to overall corporate functions; are not directly required for the development of an IRP plan; or pre-date implementation of the IRP. Specifically, the Consumer Advocate recommends disallowance of \$2,909 for HECO (\$617 for training, \$1,364 for mainland travel and \$928 for associated meals).

In response, Applicants agreed to withdraw their request for recovery by HECO of \$2,909 in certain training, travel, and meals expenses.

3.

Item No. 3 - Training and Travel Costs (HELCO and MECO)

The Consumer Advocate recommends that certain training and travel expenses be disallowed, in the amount of \$842 each, for HELCO and MECO. HELCO and MECO each originally requested recovery of \$467 for training and \$375 for travel costs. The Consumer Advocate contends that these costs are not directly required for development of an IRP plan, and that the training is basic corporate training with broad application to overall corporate functions.

As with Item No. 2, Applicants withdrew their request for recovery of \$842 for HELCO and \$842 for MECO, for training and travel expenses incurred by the HECO Rate and Regulatory Affairs Department.

4.

Item No. 4 - Training and Travel Costs (HECO, HELCO, MECO)

In Item No. 4, the Consumer Advocate recommends a reduction in HECO, HELCO and MECO's cost recovery of \$3,752 for HECO and \$486 each for HELCO and MECO, for training and travel costs related to attendance at five training programs: 1) IRP in Transition: From Regulatory to Business-Driven (HECO \$2,047); 2) 1995 Proscreen II Forum and Special Topics Training (HECO \$2,220, HELCO \$363, MECO \$363); 3) Resource Planning in an Evolving Business Environment (HECO \$795); 4) Geothermal Resources Council (HECO \$244, HELCO \$244, MECO \$244); and Technical Report Writing (HECO \$133).

With respect to the first three training programs, the Consumer Advocate asserts that they have application to broader corporate issues and strategic business planning, and recommends limiting Applicants' recovery for these three programs to one-third of the expenses. According to the Applicants, the purpose of the three training programs was to update their knowledge on resource planning issues for use in the second round of IRP, and, as such, were reasonable incremental IRP planning costs that should receive full cost recovery.

The commission agrees with Applicants that the first three programs are IRP-related and were useful in keeping Applicants informed about the ongoing IRP process. Accordingly, the commission finds that the costs for the three programs are reasonable and concludes that Applicants' request for the recovery of these IRP planning costs should be approved.

With respect to the fourth training related to the Geothermal Resources Council, the Consumer Advocate recommends that this training cost be disallowed because "Applicants had developed base generation resource plans that included geothermal resources and were actively involved in planning for geothermal power and a deep sea underwater cable" and thus geothermal training and planning are not incremental IRP costs. Applicants maintain that a portion of this cost is a reasonable incremental IRP cost, and that one-half of the cost is a reasonable allocation.

The commission agrees with the Consumer Advocate and finds that this particular training is not incremental given

Applicants' existing plans for geothermal power. Accordingly, the commission concludes that the costs for HECO, HELCO and MECO (\$244 each) to attend the Geothermal Resources Council, are not incremental IRP costs and that Applicants' request for the recovery of these costs as IRP planning costs should be denied.

For the fifth training program, Technical Report Writing, the Consumer Advocate recommends disallowance of the cost (\$133 for HECO) as having broad application to overall corporate functions. In response, Applicants state that they do not seek recovery of this cost, as they believe that this course is more appropriately classified as a basic corporate training class.

5.

Item No. 5 - Labor and Associated
Overhead Related to Sales Forecasting (MECO)

The Consumer Advocate proposes disallowing cost recovery for work done by the HECO Rate & Regulatory Affairs Department for MECO in preparing MECO's sales forecast in the amount of \$198,192 (\$91,950 for direct labor and \$106,242 for associated overhead). The Consumer Advocate contends that the forecast was used for corporate functions other than IRP.

Applicants argue that the labor and overhead charges included in MECO's request for recovery are not included in currently effective base rates, and are either IRP-related, or pre-date IRP, and are being classified as incremental IRP planning costs, in accordance with Decision and Order No. 13429,

filed on August 5, 1995, in Docket No. 7000 ("Decision and Order No. 13429"), and thus should be recoverable.

The commission finds that MECO's treatment of short and long-term sales and peak load forecasts as incremental IRP planning costs to be recovered through the IRP cost recovery provision is in accordance with Decision and Order No. 13429, in which the commission approved MECO's proposal to exclude IRP costs, such as those for sales forecast and development, from base rate revenue requirements.¹⁸ In addition, the tasks associated with Item No. 5 are reasonable and thus, in accordance with the IRP Framework. Therefore, the commission concludes that Applicants' request for recovery of its costs for Item No. 5, Labor and Associated Overhead Related to Sales Forecasting (MECO), in the amount of \$198,192, through the IRP cost recovery provision, should be approved.

6.

Item No. 6 - IS Production and Development Charges

Applicants request recovery for IS (Information Systems) Production and Development charges in the amounts of \$76,034 for HECO, \$22,009 for HELCO and \$10,133 for MECO. The Consumer Advocate recommends that cost recovery be reduced by \$26,154 for HECO, \$21,717 for HECO (for HELCO), \$9,671 for HECO (for MECO) and \$462 for MECO related to three separate concerns it has over the charges.

¹⁸See Decision and Order No. 13429 at 23-24.

First, the Consumer Advocate recommends that HECO's recovery be limited to the amount it used in its rate case test year estimate rather than the higher amount currently requested. In response, Applicants argue that the test year estimates are only forecasts and that conditions may occur that could cause the actual amount incurred to be either higher or lower than the forecasted test year amount. The commission agrees with Applicants that they should not be limited by their test year forecasts in their recovery of IRP planning costs. As such, the commission finds and concludes that HECO should be able to recover the cost of \$76,034 (and is not limited to the \$49,880 used in the operating forecast in Docket No. 7766, as proposed by the Consumer Advocate).

Second, the Consumer Advocate recommends that recovery by MECO for a \$462 mainframe software upgrade to facilitate a transition from DOS to Windows, be disallowed as it has broad application to overall corporate functions. MECO argues that this cost is a reasonable IRP planning cost as it related to a software upgrade on computers used by IRP personnel. The commission finds that this item was not specific to IRP-related needs, but that it has general corporate application. The commission, thus, concludes that MECO's request to recover this cost, in the amount of \$462, through its IRP cost recovery provision, should be denied.

Third, the Consumer Advocate is concerned that cost recovery for IS production and development charges to HELCO and MECO by the HECO Rate & Regulatory Affairs, Energy Services and

Engineering Departments, will result in a double recovery by HECO. According to the Consumer Advocate, "HELCO and MECO IS expenses are already being recovered by HECO through HECO base rates. Allowing HELCO and MECO to recover these costs through the IRP surcharge would result in double collection."¹⁹ In response, Applicants argue that these costs were for the benefit of HELCO and MECO's IRP general planning activities, and, thus, were properly billed to HELCO and MECO through HECO. The commission shares the Consumer Advocate's concern regarding cost recovery for IS production and development charges for HELCO and MECO through HECO. The commission finds that the HELCO and MECO IS expenses are being recovered by HECO through the HECO base rates and, thus HECO's cost request should be reduced by \$21,717 for HELCO and \$9,671 for MECO to avoid double collection.

7.

Item No. 7 - Materials Expenses (HELCO)

The Consumer Advocate proposes a reduction of \$11,174 for copying and material expenses for HELCO's Customer Services Department. HELCO's original request was for \$17,179. The Consumer Advocate asserts that HELCO's expenses are excessive, representing costs which included more than the incremental amount needed for IRP planning, especially in a non-IRP filing year. In response, HELCO maintains that the copying and material expenses questioned by the Consumer Advocate are related to

¹⁹Statement of Position at 13.

planning and development of HELCO's DSM programs and to the provision of information to its large IRP Advisory Group.

The commission agrees with HELCO that these copying and material costs are reasonable incremental IRP planning costs. Applicants state that the expenses were used for IRP staff to provide pertinent information to the IRP advisory group and in preparation for HELCO's four DSM programs. Accordingly, the commission concludes that Applicants' request for approval of HELCO's copying and material costs, in the amount of \$17,179 through the IRP cost recovery provision, should be approved.

8.

Item No. 8 - Training Costs (HELCO)

The Consumer Advocate recommends disallowing training costs for an Evelyn Wood Reading Dynamics on-site program, in the amount of \$300, arguing that it is basic corporate training with broad application to overall corporate functions. Applicants responded that they agree with the Consumer Advocate's recommendation and do not seek recovery of this cost.

9.

Item No. 9 - Graphic Design Expenses (HELCO)

The Consumer Advocate recommends that the commission disallow recovery by HELCO of \$2,450 for graphic design work for the HELCO Off-Grid program and a new energy logo, asserting that the graphic design work was not required for the development of an IRP plan. According to the Consumer Advocate, graphic design

work generally supports public relations and business advertising and are either part of base rates or shareholder expenses, but not incremental IRP costs. In response, HELCO maintains that its graphic design work was a reasonable expenditure within the IRP planning process to share information related to publicly supported renewable energy technologies.

The commission agrees with the Consumer Advocate that in this particular instance the graphic design work at issue was not needed for IRP purposes, as it was not needed to show information about the technology. The commission, thus, concludes that HELCO's request to recover \$2,450 through its IRP cost recovery provision should be denied.

10.

Item No. 10 - Membership and
Subscription Expenses (HECO and HELCO)

The Consumer Advocate proposes a reduction of \$750 for HECO and \$3,440 for HELCO for membership and subscription services. The Consumer Advocate recommends that all membership and subscription costs be disallowed on the basis that (1) they are not directly related to the development of an IRP plan, (2) Applicants maintained such organizational memberships and subscriptions prior to IRP implementation, and (3) memberships and subscriptions have broad application to other corporate functions.

HECO maintains that its membership in the Hawaii Solar Energy Association for a new employee, to facilitate coordination of HECO's residential water heating programs with the solar

industry, is a reasonable incremental IRP cost. With regard to the membership and subscription costs, HELCO asserts that these were incurred solely to pursue IRP and were not included in base rates, and that these costs are appropriate for recovery through the IRP cost recovery provision.

The commission finds that these costs are recurring costs that are not directly related to the development of an IRP plan, and have general corporate application. The commission, thus, concludes that HECO and HELCO's request to recover these costs through their respective IRP cost recovery provisions should be denied, and reduces their requests by \$750 for HECO and \$3,440 for HELCO.

11.

Item No. 11 - Legal Costs (HELCO)

The Consumer Advocate proposes a reduction in cost recovery of \$2,188 for legal costs relating to a separate docket unrelated to the development of an IRP plan. Applicants responded and agreed with the Consumer Advocate's recommendation and thus, do not seek recovery of this cost.

12.

Item No. 12 - Computer Software Development Expenses

The Consumer Advocate recommends a \$16,164 reduction for HECO, and a \$7,911 reduction each, for HELCO and MECO, for software services related to the Demand-Side Management Information System ("DSMIS"). It contends that the software

services provide enhancements benefiting Applicants beyond DSMIS and includes modifications and enhancements to another in-house software system, ACCESS, which provides services for a wide range of corporate functions.

In response, Applicants maintain that two of the software modifications identified by the Consumer Advocate were not performed by the Applicants' consultant, and the other two modifications were reasonable incremental IRP planning costs, as the former gave Applicants' customers access to their billing history²⁰ and the latter gave HECO the ability to track and evaluate DSM impacts on its transmission and distribution systems. Thus, Applicants deem these software services costs to be appropriate for recovery through the IRP cost recovery provision.

The commission agrees with Applicants that the expenses for software development were reasonable incremental IRP planning costs that are appropriate for recovery through the IRP cost recovery provision. For example, these modifications allowed the Applicants to provide customers with billing histories giving customers information on how and when they are using electricity, and providing opportunities to reduce energy use. The commission, thus, finds and concludes that Applicants' request to recover \$106,620 through its IRP cost recovery provision should be approved.

²⁰Applicants state that the new billing system would provide customers with information on when and where they are using energy and the ability to identify ways to reduce energy consumption.

Item No. 13 - Training and Travel Expenses (HECO)

The Consumer Advocate recommends disallowing certain training, travel and meals expensed by HECO's Energy Services Department totaling \$6,450. HECO's original request was for \$12,001 (\$4,734 for training, \$6,539 for travel, and \$728 for meals and entertainment). According to the Consumer Advocate, the Fundamentals of Utility Finance and the Effective Letters and Memos courses are not directly required for the development of an IRP plan and are basic corporate training courses with broad application to overall corporate functions. The Electric Utility Customer Research Conference, the annual meeting of the Association of Energy Services Professionals and the American Marketing Association seminar encompass broad areas of application outside of DSM.

HECO disagrees and maintains that the employees that attended these trainings were working directly on HECO's IRP and DSM programs and the trainings were provided to expose them to issues other than those directly related to IRP planning to increase their value to the IRP planning process as well as increase their understanding of IRP and DSM issues. HECO also argues that the commission in its 1995 rate case, Docket No. 7766, agreed to allow HECO to use the IRP clause to recover DSM costs and non-recurring IRP general planning costs.

The commission finds that the training in question does not have direct relevance to the development of an IRP plan, but are programs with broad corporate application. Accordingly, the

commission concludes that HECO's request for approval of Item No. 13, in the amount of \$6,450, should be denied.

14.

Item No. 14 - Communication Expenses (HECO and HELCO)

The Consumer Advocate recommends disallowing certain graphic design, printing, newspaper advertisement and associated videotape and travel expenses totaling \$1,053 for HECO and \$1,913 for HELCO. The Consumer Advocate asserts that these expenses were not required for the development of an IRP plan, but served to promote or support a broad range of corporate functions and objectives, including public relations. In response, HECO and HELCO state that the expenses were incurred to promote components of the Applicants' IRP plans and to provide information to the public on the IRP process and on energy efficient electrotechnologies. Applicants maintain that these costs were reasonable costs incurred to promote parts of the IRP plans, which should be recoverable through the IRP cost recovery provision.

The commission agrees with HECO and HELCO that some publicizing of the components of any IRP plan is reasonable. The expenses, e.g., graphic design, printing and newspaper advertisements, were used to promote the IRP plans and to provide information to the public on the IRP process and energy efficient electrotechnologies. The commission, thus, concludes that the costs for these items, \$1,053 for HECO and \$1,913 for HELCO,

should be recovered through HECO and HELCO's respective IRP cost recovery provisions.

15.

Item No. 15 - Network Service and
Photovoltaic Trailer Expenses (MECO)

The Consumer Advocate recommends disallowing \$2,955 in MECO Customer Services Department expenditures for a class load study and for shipping a photovoltaic trailer between Hawaii and Maui, contending that (1) class load studies were performed prior to IRP and have broad application for other corporate functions, such as rate design and customer service, and (2) the shipment and use of the photovoltaic trailer were not required for the development of an IRP plan and also promotes or supports a broad range of corporate functions and objectives, including public relations. In response, MECO argues that the 1995 class load study was to obtain peak load data used to develop MECO's long term sales and peak load forecast used in IRP planning. The photovoltaic trailer was used to familiarize MECO employees involved in IRP planning with photovoltaic technology and its application to the IRP process, and was used to educate customers and students about the renewable energy integration in MECO's IRP process. Thus, MECO asserts that these are reasonable incremental IRP planning costs.

The commission finds that the costs incurred by MECO for a class load study and for shipping the photovoltaic trailer are consistent with the goals and objectives of integrated resource planning. Thus, the commission concludes that MECO's

costs for Item No. 15, \$2,995, are reasonable incremental IRP planning costs which should be recovered through the IRP cost recovery provision.

16.

Item No. 16 - Training Expenses (MECO)

The Consumer Advocate recommends disallowing a portion of the costs to attend the ASME International Solar Energy Conference. According to the Consumer Advocate, MECO sent five employees²¹ to the conference at a total cost of \$1,480 in registration fees, but the incremental planning required for development of an IRP plan should have been adequately covered by the attendance of two MECO employees. The Consumer Advocate recommends disallowing \$870, which is the cost of registration for three people.

MECO states that the attendees were all directly involved in various aspects of IRP planning, and that their attendance was to expand their knowledge of renewable energy, which is essential to the development of IRP supply-side resource planning.

The commission finds that the costs incurred for attending the ASME International Solar Energy Conference were reasonable costs related to the development of an IRP plan, and concludes that MECO should be allowed to recover the \$1,480 cost through the IRP cost recovery provision.

²¹MECO asserts that the Consumer Advocate mistakenly assumed that it sent five employees to the solar conference; MECO states that it sent four employees. See Response to the Statement of Position, Exhibit B at 18.

Item No. 17 - Materials Expenses (HECO)

The Consumer Advocate recommends that the cost for a PC and two modems for HECO's Energy Services Department in the amount of \$3,119 should be disallowed. HECO's original request was for \$5,405. The Consumer Advocate contends that the PC and modem use supports a broad range of corporate functions beyond direct development of an IRP, as HECO's Energy Services Department provides non-incremental and incremental planning functions.

HECO asserts that the equipment in question was purchased to support employees directly involved in IRP and DSM program planning. It also maintains that these employees are not supporting other non-IRP or DSM functions, and that therefore, the equipment was a reasonable incremental IRP planning cost.

The commission finds that the purchase of the computer equipment was necessary to support HECO employees in their IRP-related duties and functions, and thus, these costs were reasonable for meeting the needs of IRP planning. Accordingly, the commission concludes that these costs, in the amount of \$5,405, should be recovered by HECO through the IRP cost recovery provision.

C.

Refund

By Order No. 17983, Applicants are required to refund to their customers, with interest at the rate applicable to

deferred IRP planning costs, any previously recovered IRP planning costs subsequently disallowed by the commission in its final decision and order in these proceedings. Order No. 17983, however, consolidated Docket Nos. 94-0316, 95-0362, 96-0431, 97-0358, and 98-0339, which pertain to Applicants' 1995-1999 IRP planning costs. As this Decision and Order only relates to Applicants' 1995 IRP planning costs, the commission finds it in the public interest to defer any decision on refund until decision and orders are issued on the remaining four IRP cost recovery dockets that were consolidated in this proceeding. As there may be some expense involved in processing a refund, it is in the best interest of Applicants' ratepayers to have the disputed issues in the cost recovery dockets resolved prior to any decision on refund.

III.

Orders

THE COMMISSION ORDERS:

1. Applicants are allowed to recover their 1995 IRP planning costs to the extent described herein.
2. The issue of refund is deferred pending completion of the remaining four IRP cost recovery dockets that were consolidated in this proceeding.

DONE at Honolulu, Hawaii

DEC 27 2006

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By Carlito P. Caliboso
Carlito P. Caliboso, Chairman

By John E. Cole
John E. Cole, Commissioner

APPROVED AS TO FORM:

Benedyne S. Stone
Benedyne S. Stone
Commission Counsel

98-0339(consolidated).sl

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 23160 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: DEC 27 2006