

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

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

2001 FEB 26 A 8:47

RECEIVED

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)
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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.

Karen 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. 23274

Filed Feb. 23, 2007

At 11:30 o'clock A.M.

Karen Higrot.

Chief Clerk of the Commission

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OF THE STATE OF HAWAII

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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. 23274

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 1996 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 laws of 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 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 islands of Maui, Lanai and Molokai.

A.

Application

On December 1, 1995, Applicants filed an Application for Approval of Recovery of 1996 IRP Planning Costs Through Each Company's IRP Cost Recovery Provision in which they request commission approval of their budgets for 1996 IRP planning costs and the subsequent recovery of those costs ("Application").¹ Specifically, Applicants request approval of: (1) HECO's annual, incremental 1996 IRP budget, estimated to be \$1,583,082 and subsequent recovery of its 1996 IRP planning costs actually spent in 1996; (2) HELCO's annual, incremental 1996 IRP budget, estimated to be \$887,254, and subsequent recovery of its 1996 IRP

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, was denied intervention in Docket No. 96-0362, and thus is not a party to this docket. See Order No. 14460, filed on January 12, 1996; see also 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."

planning costs actually spent in 1996; and (3) MECO's annual, incremental 1996 IRP budget, estimated to be \$1,357,651, and subsequent recovery of its 1996 IRP planning costs actually spent in 1996.

For HECO, commission approval is requested pursuant to Decision and Order No. 11317, filed on October 17, 1991, in Docket No. 6531 (HECO's 1990 Rate Case), Decision and Order No. 11699, filed on June 30, 1992, in Docket No. 6998 (HECO's 1992 Rate Case), Decision and Order No. 13704, filed on December 28, 1994, in Docket No. 7700 (HECO's 1994 Rate Case), and Interim Decision and Order No. 13716, filed on December 20, 1994, in Docket No. 7766 (HECO's 1995 Rate Case). HELCO requests commission approval pursuant to Decision and Order No. 10993, filed on March 6, 1991, in Docket No. 6432 (HELCO's 1990 Rate Case), Decision and Order No. 11893, filed on October 2, 1992, in Docket No. 6999 (HELCO's 1992 Rate Case), and Decision and Order No. 13762, filed on February 10, 1995, in Docket No. 7764 (HELCO's 1994 Rate Case). MECO requests approval pursuant to Decision and Order No. 13429, filed on August 5, 1995, in Docket No. 7000 (MECO's 1992 Rate Case). Applicants also request commission approval pursuant to Paragraph II.B.7 of the Framework for Integrated Resource Planning dated May 22, 1992 ("IRP Framework").

Annual Incremental IRP Budgets

In their Application, Applicants request approval of HECO's "annual, incremental 1996 budget," which is an estimate of HECO's 1996 IRP planning costs above amounts recovered in base rates that have been previously approved by the commission and which were in effect in 1996. HECO's "annual, incremental 1996 budget" estimate is \$1,583,082. HECO's "incremental" IRP planning costs include 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, Decision and Order No. 13704, filed on December 28, 1994, in Docket No. 7700, and Interim Decision and Order No. 13716, filed on December 30, 1994, in Docket No. 7766.

HELCO's "annual, incremental 1996 budget" estimate for IRP planning costs not recoverable through its base rates in effect in 1996 is \$887,254. HELCO's "incremental" IRP planning costs include labor expenses not included in Decision and Order No. 11893, filed on October 2, 1992, in Docket No. 6999, and Decision and Order No. 13762, filed in Docket No. 7764.²

MECO's "annual, incremental 1996 budget" estimate for IRP planning costs not recoverable through its base rates in effect in 1996 is \$1,357,651. MECO's base rates do not include any IRP planning costs, since IRP planning costs were not

²Applicants 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.

included in the 1992 or 1993 proposed test year expenses in MECO's 1992 rate case, Docket No. 7000.

2.

Coordination of Applicants' IRP Efforts

Applicants state that effective July 1, 1995, HECO reorganized to a process-based organization with several HECO divisions being combined to form new departments. The Generation Planning, Integrated Resource Planning and Power Plant Mechanical, Power Plant Electrical and Project Management Divisions were combined to form the Planning and Engineering Department. The Forecasting, and Rates and Load Research Divisions, which were previously in the Rate and Regulatory Affairs Department, were transferred to the Energy Services Department, and the Rate and Regulatory Affairs Department became the Regulatory Affairs Division. As a result, Applicants state that HECO's IRP efforts are coordinated by HECO's Planning and Engineering Department, and are being provided by three HECO departments (Planning and Engineering, Energy Services and Corporate Relations), one HECO division (Regulatory Affairs), with the participation of five advisory groups (Forecasting, Demand-Side Management, Supply-Side, Externalities and Integration). 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 three HECO departments and one HECO division noted above. HELCO and MECO each have one advisory group.

Recovery of IRP Planning Costs

Applicants propose to recover their 1996 IRP planning costs through their respective IRP cost recovery provisions, which provide for cost recovery through a percentage surcharge applicable to base revenues.³ 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.⁴

B.

Applicants' 1996 IRP Planning Expenditures

On March 31, 1997, Applicants filed an accounting of their recorded 1996 IRP planning costs in which HECO reported 1996 IRP expenditures of \$714,965 (\$868,117 less than the \$1,583,082 amount budgeted, as stated in the Application). HELCO reported \$551,012 in 1996 IRP expenditures (\$336,242 less than the \$887,254 amount budgeted, as stated in the Application) and MECO reported \$579,623 in 1996 IRP expenditures (\$778,028 less than the \$1,357,651 amount budgeted in the Application).

By letter dated December 17, 1999, HECO revised its 1996 IRP planning costs downward by \$50,367 to remove invoices

³Applicants include examples of their IRP cost recovery provisions in Attachments D, E and F of the Application.

⁴Application at 14.

indirectly coded to IRP planning. As such, HECO revised its 1996 IRP expenditures for which it seeks cost recovery from \$714,965 to \$664,598.

C.

Stipulation

On July 17, 2000, the Parties⁵ 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 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

⁵The 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.

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.

D.

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.⁶

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, Applicants' recovery of their recorded IRP planning costs was subject to refund, pending further review and the issuance of the commission's final decision and order.⁷

⁶Although 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.

⁷Order No. 17983 at 6.

Specifically, with respect to the 1996 IRP planning costs (Docket No. 95-0362), the Parties agreed to allow HECO to recover IRP costs of \$664,598; HELCO to recover IRP costs of \$551,012; and MECO to recover IRP costs of \$579,623 (excluding interest), as set forth in Applicants' accounting of their recorded 1996 IRP planning costs, filed on March 31, 1997, as revised on December 17, 1999.

E.

Consumer Advocate's Statement of Position

On September 22, 2000, the Consumer Advocate filed its Amended Statement of Position for Docket No. 95-0362 ("Statement of Position")⁸ in which it recommended that Applicants' request be reduced by \$259,951 for HECO, \$48,569 for HELCO and \$39,038 for MECO⁹ such that Applicants would be allowed to recover 1996 IRP planning costs of \$404,646 for HECO, \$502,443 for HELCO and \$540,585 for MECO.

According to the Consumer Advocate, it had three general concerns with Applicants' 1996 IRP planning expenditures, which it raised in its statement of position filed in the 1995

⁸On March 6, 1996, the Consumer Advocate filed a Statement of Position stating that it was unable to state its position on the merits of the Application and that it would be issuing information requests to Applicants as soon as practicable.

⁹In Applicants' response to the Consumer Advocate's Statement of Position, filed on January 19, 2001, Applicants state that the Consumer Advocate revised one of its recommendations for reductions in cost recovery such that the Consumer Advocate's recommended reductions total \$259,951 for HECO, \$49,240 for HELCO and \$39,710 for MECO.

IRP cost recovery docket (Docket No. 94-0316). First, the Consumer Advocate was concerned that Applicants' 1996 IRP planning expenditures included "non-incremental planning costs," i.e., "costs for activities that are or should be performed during the normal course of planning regardless of the IRP framework requirements."¹⁰ The Consumer Advocate recommended disallowing \$74,056 for HECO, \$35,345 for HELCO and \$29,324 for MECO in non-incremental planning costs.

Second, the Consumer Advocate recommended disallowing \$185,895 for HECO, \$13,224 for HELCO and \$9,714 for MECO in costs for items or services with corporate applications other than IRP planning. According to the Consumer Advocate, Applicants should not be able to recover that portion of expenditures that benefit corporate areas other than IRP planning.

Third, the Consumer Advocate identified Demand-Side Management ("DSM") related costs that were included in Applicants' 1996 cost recovery request. The Consumer Advocate, however, did not recommend that the costs be removed from the 1996 request; only that Applicants incorporate those costs within their cost-benefit analysis of each DSM program in determining effectiveness, shareholder incentives and lost gross margins.

Attachment II to the Consumer Advocate's Statement of Position contains a chart listing the twenty-one (21) cost items that the Consumer Advocate recommended disallowing.

¹⁰Consumer Advocate's Statement of Position at 4.

F.

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

On January 19, 2001, Applicants filed their response to the Consumer Advocate's Statement of Position ("Applicants' Response") in which they maintain that their 1996 IRP planning costs were reasonable, incremental IRP planning costs for which commission approval is warranted. With regard to the Consumer Advocate's recommended reductions, Applicants agreed to a reduction of \$825 for HELCO, and accordingly, revised their IRP cost recovery requests to \$664,597 for HECO, \$550,187 for HELCO and \$579,623 for MECO.

As to the remaining cost items for which Applicants and the Consumer Advocate disagree, Applicants argue that they incurred similar expenses in 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 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 December 1, 1995, which suggested to Applicants that these costs were reasonable and would be permitted full cost recovery. In addition, Applicants assert that it is unreasonable for the Consumer Advocate to recommend reductions three-and-a-half years after Applicants filed their 1996 IRP planning expenditures.

Finally, Applicants' assert that the Consumer Advocate's position that certain costs should have been included in base rates is contradictory to their previous position on IRP planning costs articulated in HELCO's 1996 test year rate case. According to Applicants, when the 1996 IRP planning costs were incurred, Applicants' and the Consumer Advocate's position was that all non-labor incremental IRP planning costs should be recovered through their IRP cost recovery provisions.

Attached as Exhibit A to Applicants' Response is the Consumer Advocate's chart of its twenty-one (21) recommended reductions to Applicants' 1996 IRP planning costs. Utilizing the Consumer Advocate's chart in Exhibit A, Applicants respond to the Consumer Advocate's twenty-one (21) recommended reductions in Exhibit B to Applicants' Response. In doing so, Applicants divide the Consumer Advocate's twenty-one (21) recommended reductions into eight (8) separate categories and provide a response to each category of recommended reductions.

G.

Decision and Order No. 23160

By Decision and Order No. 23160, filed on December 27, 2006, the commission approved recovery of Applicants' 1995 IRP planning costs. In its Decision and Order, the commission addressed three general concerns raised by the Consumer Advocate related 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. The commission also resolved seventeen (17) specific concerns the Consumer Advocate had with the proposed cost recovery of certain expenditures. The commission, however, deferred the issue of refund pending completion of the remaining four IRP cost recovery dockets that were consolidated in this proceeding.

II.

Discussion

A.

Specific Cost Recovery of Certain Expenditures

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 Applicants to develop IRP 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 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.

As noted above, the Consumer Advocate's recommended reductions were provided in the form of a chart attached as Attachment II to its Statement of Position. Applicants, in their response, divided the Consumer Advocate's twenty-one (21) recommended reductions into eight (8) categories. The commission will address each category of costs.

1.

Category One: Proscreen-Related Costs

Category One relates to the Proscreen computer software model and associated license fee, consultant services and training costs. In particular, Category One includes: (1) CA Item No. 1 for cost recovery of the Proscreen II software annual license fee, in the amount of \$34,518 for HECO, \$20,495 for HELCO, and \$20,495 for MECO; (2) CA Item No. 2 for Proscreen II consultant services in the amount of \$31,986 for HECO, \$4,408 for HELCO, and \$4,408 for MECO; (3) CA Item No. 4 for cost recovery of Proscreen II training costs, in the amount of \$4,027 for HECO, \$2,013 for HELCO, and \$2,014 for MECO; and (4) CA Item No. 8 for "Proscreen II license fee and a Mall and Laplink programs," in the amount of \$3,525 for HECO, \$1,760 for HELCO, and \$1,760 for MECO.

In its Statement of Position, the Consumer Advocate recommends disallowing Applicants' recovery of costs associated with Proscreen II, as non-incremental IRP planning costs. According to the Consumer Advocate, the functions of Proscreen II identified by Applicants (e.g., load forecast adjustment,

generation and fuel, and dynamic programming) are functions that should be performed in the normal course of generation planning, and Applicants failed to distinguish Proscreen II functions as incremental to planning functions performed prior to IRP and to explain how Proscreen II fulfills the requirements established by the IRP Framework.

In response, Applicants argue that Proscreen is an integrated planning system capable of developing hundreds of candidate IRP plans, consisting of different combinations of new DSM and supply-side resources, combined with existing resources, to meet various integration objectives and perspectives. According to Applicants, Proscreen was acquired to conduct IRP, was only used for IRP,¹¹ and was necessary to meet the IRP Framework requirement that all feasible DSM and supply-side resources options appropriate to Hawaii be considered; and the mainframe planning model previously used by Applicants, Generation Expansion Program Planning System, was not capable of integrating DSM resources.

Specifically, Applicants argue that the Proscreen consultant services in CA Item No. 2 were incurred to update the Proscreen database and analyses; that the Proscreen training costs in CA Item No. 4 were for IRP personnel to attend conferences hosted by the developer of Proscreen to update their knowledge on Proscreen's latest enhancements and applications; and that the software costs other than Proscreen in CA Item No. 8, which totaled \$244, were related to enhancements

¹¹See also Applicants' Response to CA-IR-62 and CA-IR-69.

to an Energy Services Department computer that was used for IRP planning.

Here, the commission agrees with Applicants that the Proscreen-related costs identified in Category One (CA Item Nos. 1, 2, 4, and 8) are reasonable incremental IRP planning costs that are appropriate for recovery through Applicants' IRP cost recovery provisions. Indeed, the commission previously allowed recovery by HECO of costs related to attendance at the 1995 Proscreen II Forum and Special Topics Training in Decision and Order No. 23160.¹² The commission, thus, approves Applicants' request to recover the items listed in Category One through their IRP cost recovery provisions.

2.

Category Two: Supply-Side Resource Options Study

The Consumer Advocate contends that \$152,578 in costs incurred by HECO for a supply-side resource options study by Black & Veatch should be disallowed. According to the Consumer Advocate, a supply-side resource options evaluation should be done in the normal course of utility planning.

In response, Applicants refer to their response to CA-IR-79 in which they state that the work performed by Black & Veatch for HECO IRP-2 was "much more involved than the generation technology assessments performed before the inception of IRP." Applicants also point to the IRP Framework requirement of identifying all possible supply-side resources, and the need

¹²Decision and Order No. 23160, at 29-30.

to describe in detail those resources in HECO's supply-side resource option reports.

Despite the brevity in explanation and support provided by Applicants and the Consumer Advocate related to this cost item, the commission will agree with Applicants in this instance that the supply-side resource options study by Black & Veatch was reasonably related to IRP planning. Accordingly, the commission approves Applicants' request for recovery of \$152,578 for HECO through its IRP cost recovery provision.

3.

Category Three: Training Expenses

The Consumer Advocate recommends disallowing certain training, travel, and meals expenses, which it asserts have corporate applications beyond IRP. Specifically, the Consumer Advocate recommends disallowing \$2,957 in costs incurred by HECO's Planning and Engineering Department for the: 1) U.S. Department of Energy/Electric Power Research Institute Green Pricing workshop; 2) 1996 Gasification Technologies Conference; and 3) 1996 Fuel Cell seminar. The Consumer Advocate also recommends disallowing \$1,035 in costs incurred by HECO's Regulatory Affairs Division for travel costs related to the U.S. Department of Energy/Electric Power Research Institute Green Pricing workshop.

In response, HECO argues that the training costs were incurred to keep IRP personnel abreast of recent developments in fuel cells and green pricing, which were a component of

Applicants' Supply-Side Action Plans approved by the commission. According to Applicants, the information gained at these conferences was used to develop HECO's IRP-2.¹³

The commission agrees with Applicants that the trainings were IRP-related and were useful in keeping Applicants informed about recent technologies for the development of the supply-side resource option portion of HECO's IRP. Accordingly, the commission finds that the costs for the three programs are reasonable and approves Applicants' request for recovery of these IRP planning costs.

4.

Category Four: Computer Expenses

The Consumer Advocate recommends that the commission disallow costs incurred by the HECO Energy Services Department to purchase three computers for \$9,735. The Consumer Advocate contends that these expenses have value for corporate functions beyond IRP. In response, Applicants refer to their response to CA-IR-66 in which they assert that the three computers were purchased primarily for IRP planning, and have also been used to support DSM program implementation and sales forecast activities.

Consistent with Decision and Order No. 23160 with regard to 1995 IRP planning costs,¹⁴ the commission finds that the purchase of computers was necessary to support HECO employees in

¹³See Applicants' Response, Exhibit B, at 2-3; Applicants' Response to CA-IR-65.

¹⁴Decision and Order No. 23160, at 43.

their IRP-related duties and functions, and thus, these costs were reasonable for meeting the needs of IRP planning. Accordingly, the commission approves these costs, in the amount of \$9,735, by HECO through its IRP cost recovery provision.

5.

Category Five: Interisland Travel

The Consumer Advocate recommends a reduction in HELCO's and MECO's cost recovery of \$6,177 for HELCO and \$1,319 for MECO for interisland travel costs that it claims were related to normal utility planning. To support its assertion, the Consumer Advocate references Applicants' responses to CA-IR-72 and CA-IR-75, which contain charts itemizing numerous expenditures for various reasons, but provides no discussion of the basis for recommending that any particular amounts be disallowed. Likewise, Applicants, in response, merely state that the interisland travel expenses were directly related to their IRP efforts, and refer to their responses to CA-IR-72 and CA-IR-75.

Despite the lack of information provided by the Consumer Advocate and Applicants, the commission will allow recovery for those costs in this instance, as it appears that the interisland travel was related to advisory group meetings, externalities advisory group meetings, green pricing meetings, and IRP task force meetings.

Category Six: Pumped Storage Hydroelectric Study

The Consumer Advocate proposes disallowing cost recovery for a pumped storage hydroelectric ("PSH") feasibility study performed by HECO's consultant, Christensen Associates, in the amount of \$1,781 for HELCO and \$1,781 for MECO. The Consumer Advocate contends that the study was related to supply-side resource evaluation that should have been done in the normal course of utility planning.

In response, Applicants argue that the study was a component of MECO's Supply-Side Action Plan and HELCO's Modified Supply-Side Action Plan, which were approved by the commission. In addition, according to Applicants, the study, which screened and identified potential sites for PSH facilities, was performed as an action plan item from IRP-1 and was used in the analysis of IRP-2.¹⁵

As with the supply-side resource options study by Black & Veatch, the commission agrees with Applicants in this instance that the PSH feasibility study performed by Christensen Associates was reasonably related to IRP planning. Accordingly, the commission approves Applicants' request for recovery of \$1,781 for HELCO and \$1,781 for MECO through their IRP cost recovery provisions.

¹⁵Applicants' Response to CA-IR-80.

Category Seven: Sales Forecasting Expenses

The Consumer Advocate contends that expenses incurred by HECO for sales forecasting services provided by Tucson Economic Consulting and DRI/McGraw Hill should be disallowed. Specifically, the Consumer Advocate proposes that \$13,818 be disallowed for HECO, \$6,250 for HELCO and \$4,750 for MECO for work by Tucson Economic Consulting; and \$5,772 be disallowed for HECO, \$3,126 for HELCO and \$3,127 for MECO for work by DRI/McGraw Hill. According to the Consumer Advocate, these services benefit corporate areas other than IRP planning.

In response, Applicants state that the sales forecasting expenses were components of their Forecasting Action Plans, which were approved by the commission, and were similar to costs incurred by Applicants in their 1995 IRP planning costs.

Consistent with Decision and Order No. 23160, which addressed Applicants' 1995 IRP planning costs,¹⁶ the commission finds that Applicants' costs for sales forecasting work performed by Tucson Economic Consulting and DRI/McGraw were reasonable and appropriate. Accordingly, the commission approves Applicants' request for recovery of \$19,590 for HECO, \$9,376 for HELCO and \$7,877 for MECO through their IRP cost recovery provisions.

¹⁶Decision and Order No. 23160, at 26-28.

Category 8: HELCO Customer Service Department Expenses

The Consumer Advocate proposes disallowing \$3,174 for various miscellaneous expenses incurred by HELCO's Customer Services Department on the ground that they have value for corporate functions beyond IRP. Specifically, the Consumer Advocate seeks to disallow: 1) \$190 for photographic work by a HELCO consultant (CA Item No. 14); 2) \$68 in voice mail expenses for a HELCO consultant (CA Item No. 15); 3) \$221 in computer consultation expenses (CA Item No. 16); 4) \$250 for a subscription to Electricity Journal (CA Item No. 17); 5) \$575 for a subscription to Energy Services Telecom Report (CA Item No. 18); 6) \$163 for FedEx expenses (CA Item No. 19); 7) \$707 for network cabling work (CA Item No. 20); and 8) \$1,000 in membership dues for the Utility Photovoltaic Group (CA Item No. 21).

In response, HELCO conceded that CA Item Nos. 17 and 18 have applications to IRP and other corporate activities and agreed not to seek recovery through HELCO's cost recovery provision. With respect to CA Item Nos. 14-16 and 19-21, HELCO maintained that these expenses were directly related to its IRP activities, and since they were not included in base rates, should be recovered as incremental planning costs through the IRP clause.

Although the record is sparse on these expenses, the commission will agree with HELCO that, with the exception of CA Item No. 21, the items listed above (CA Item Nos. 14-16 and

19-20) are reasonable incremental IRP planning costs. With respect to CA Item No. 21, in Decision and Order No. 23160, the commission disallowed membership costs. Consistent with Decision and Order No. 23160, the commission will disallow the \$1,000 in membership dues identified in CA Item No. 21, as a recurring cost that has general corporate application.¹⁷ Accordingly, the commission concludes that HELCO should be allowed to recover \$1,349 in miscellaneous costs for Category Eight (CA Item Nos. 14-16 and 19-20) through the IRP cost recovery provision.

B.

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' 1996 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 three IRP cost

¹⁷Decision and Order No. 23160, at 36-37.

recovery dockets that were consolidated in this proceeding. This is consistent with the commission's decision on refund in Decision and Order No. 23160.¹⁸

III.

Orders

THE COMMISSION ORDERS:

1. Applicants are allowed to recover their 1996 IRP planning costs to the extent described herein.

2. The issue of refund is deferred pending completion of the remaining three IRP cost recovery dockets (Docket Nos. 96-0431, 97-0358, 98-0339) that were consolidated in this proceeding.

DONE at Honolulu, Hawaii FEB 23 2007.

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:

Stacey Kawasaki Djou
Stacey Kawasaki Djou
Commission Counsel

94-0316,95-0362,96-0431,97-0358,98-0339(CONSOLIDATED).eh

¹⁸Decision and Order No. 23160, at 43-44.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 23274 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: FEB 23 2007