

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)

HAWAIIAN ELECTRIC COMPANY, INC.)

DOCKET NO. 2007-0409

For Approval to Commit Funds in)
Excess of \$2,500,000 for)
Item P0001534, the Barbers Point)
Fuel Oil Tank 131 Renovation.)

ORDER NO. 23915

Filed Dec. 20, 2007
At 11 o'clock A.M.

Karen Higashi
Chief Clerk of the Commission

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

Karen Higashi

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Docket No. 2007-0409

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ORDER

By this Order, the commission approves HAWAIIAN ELECTRIC COMPANY, INC.'s ("HECO") request to deviate from the requirement set forth in Paragraph 2.3(g)(2) of General Order No. 7, Standards for Electric Utility Service in the State of Hawaii ("G.O. 7"), as modified by In re Hawaiian Elec. Co., Inc., Hawaii Elec. Light Co., Inc., and Maui Elec. Co., Ltd., Docket No. 03-0257, Decision and Order No. 21002, filed on May 27, 2004 ("Decision and Order No. 21002"), that HECO file its application at least sixty days prior to the commencement of construction or commitment for the expenditure of funds for the Barbers Point Fuel Oil Tank 131 Renovation Project.¹

In addition, the commission instructs the Parties to submit a stipulated procedural order for the commission's review and consideration by January 22, 2008. If the Parties are unable

¹The Parties are HECO and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"), an ex officio party to this proceeding, pursuant to Hawaii Revised Statutes § 269-51 and Hawaii Administrative Rules § 6-61-62(a).

to stipulate to such a procedural order, each party shall submit a proposed procedural order for the commission's review and consideration by the same date.

I.

Background

A.

Tank 131

HECO's Barbers Point Tank Farm has three identical fuel oil tanks: Tanks 131, 132, and 133. These three tanks are the largest fuel oil tanks on the HECO system, with each tank providing approximately 14.5 million gallons of low sulfur fuel oil ("LSFO"). Tank 131 is typically used to accept LSFO deliveries from Chevron Hawaii and Tesoro Hawaii Corporation, and to transfer LSFO to HECO's Kahe Power Plant.

After Tank 131 was cleaned in September 2007, an internal tank inspection performed by a third-party uncovered significant corrosion around the entire inner circumference of the floor, and on the lower first course of the shell. According to HECO, a "tank renovation focusing on [the] replacement of the steel floor is necessary before the tank can be safely returned to service."²

²HECO's Application, at 5.

B.

HECO's Requests

By its Application filed on December 11, 2007, HECO requests the commission's approval, by March 7, 2008, to commit approximately \$4,075,084 in funds for the Barbers Point Fuel Oil Tank 131 Renovation Project ("Project").³ The proposed scope of work for the Project includes the "[p]reparation for and installation of a new tank bottom based on the El Segundo double bottom design, including leak detection and monitoring capability[.]"⁴

HECO, by its Application, also requests the following commission action by December 21, 2007:

HECO [also] requests a deviation from Paragraph 2.3(g)(2) of [G.O. 7] to permit HECO to commit funds for the subject project earlier than 60 days after filing its application for Commission review of the project. Without the deviation, Paragraph 2.3(g)(2) of G.O. 7 would require that the application "be submitted to the Commission for review at least 60 days prior to the commencement of construction or commitment for expenditure, whichever is earlier."

HECO's Application, at 1.

In support of its specific request for commission action by December 21, 2007, HECO states:

Due to the urgent nature of the situation, as explained later in this application, HECO respectfully requests Commission approval by December 21, 2007 (in advance of Commission

³Application; Verification; Attachments 1 - 5; and Certificate of Service, filed on December 11, 2007 (collectively, "Application"). HECO served copies of its Application upon the Consumer Advocate.

⁴HECO's Application, at 5.

approval to commit funds in excess of \$2,500,000) for a deviation from Paragraph 2.3(g)(2) of G.O. 7 to allow HECO to order the required long-lead materials and perform detailed assessment and engineering activities for the project. In addition, depending on when Commission "final" approval is received, HECO may need to proceed with the construction portion of the project prior to receiving the "final" Commission approval.

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Receipt of Commission approval by December 21, 2007 of a deviation from Paragraph 2.3(g)(2) of G.O. 7 will allow HECO to commence immediately with the [Project]. The loss of one-third of HECO's central LSFO storage capacity (i.e., Tank 131 out of service) limits HECO's ability to optimize LSFO inventories, to effectively schedule LSFO receipt and transfer operations, and to respond to and mitigate supply disruptions and receipt of off-specification LSFO. These factors support [the] return of Tank 131 to service on an expedited basis. Accordingly, HECO requests Commission approval of a deviation from Paragraph 2.3(g)(2) of G.O. 7 in order to commit capital funds earlier than 60 days after the filing of the subject application.

In order to proceed with the project, upon receipt of Commission approval of a deviation from Paragraph 2.3(g)(2) of G.O. 7, HECO will initiate the order for steel plate material and prepare Tank 131 for the installation of a double bottom. Procurement and delivery of new floor plates are in the critical path for the project schedule. Tank 131 will remain out of service for approximately six months after Commission approval of the deviation from Paragraph 2.3(g)(2) of G.O. 7 is received.

HECO understands that if the Commission does not approve its Application, HECO will have the burden of proof to justify the reasonableness of the capital expenditures in its next rate case. However, HECO is confident that the merits of this project justify the reasonableness of the project. The Consumer Advocate does not object to the request for deviation and reserves its right to state its position with respect to the substance of HECO's Application.

HECO's Application, at 2 and 10-11 (emphasis added).

II.

Discussion

A.

HECO's Request

Paragraph 2.3(g)(2) of G.O. No. 7, as modified by Decision and Order No. 21002, states in relevant part:

Capital Improvements.

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2. Proposed capital expenditures for any single project related to plant replacement, expansion or modernization, in excess of \$2,500,000, excluding customer contributions, or 10 per cent of the total plant in service, whichever is less, shall be submitted to the Commission for review at least 60 days prior to the commencement of construction or commitment for expenditure, whichever is earlier Failure of the Commission to act upon the matter and render a decision and order within 90 days of filing by the utility shall allow the utility to include the project in its rate base without the determination by the Commission required by this rule. The data submitted under this rule shall be in such form and detail as prescribed by the Commission.

G.O. No. 7, Paragraph 2.3(g)(2), as modified by Decision and Order No. 21002, Ordering ¶ No. 2, at 15.

Paragraph 1.2(e) of G.O. No. 7 states:

No electric utility shall deviate from these rules without specific authorization from the Commission except as herein provided. The rules herein established shall take precedence over all rules filed or to be filed by electric utilities insofar as inconsistent therewith. Rules now on file and inconsistent with the rules herein established shall be properly revised and refiled thirty (30) days from the effective date of [G.O. 7].

G.O. No. 7, Paragraph 1.2(e).

Tank 131 is typically used to store and transfer the deliveries of LSFO to HECO's Kahe Power Plant, which consists of base load units. According to HECO, with Tank 131 out-of-service, the loss of one-third of HECO's central LSFO storage capacity limits its "ability to optimize LSFO inventories, to effectively schedule LSFO receipt and transfer operations, and to respond to and mitigate supply disruptions and receipt of off-specification LSFO."⁵ HECO also represents that "[t]he Consumer Advocate does not object to the request for deviation and reserves its right to state its position with respect to the substance of HECO's Application."⁶

Based on HECO's representations, the commission finds good cause to approve HECO's request to deviate from the requirement set forth in Paragraph 2.3(g)(2) of G. O. No. 7, as modified by Decision and Order No. 21002, that HECO file its application at least sixty days prior to the commencement of construction or commitment for the expenditure of funds for the Project.⁷ HECO, thus, is permitted to commit funds for the Project earlier than the sixty days following the filing of its Application.

⁵HECO's Application, at 10.

⁶HECO's Application, at 10.

⁷See, e.g., In re Hawaiian Elec. Co., Inc., Docket No. 04-0054, Order No. 20856 (approval of HECO's request for a waiver of the Paragraph 2.3(g)(2) requirement to file its application at least sixty days prior to the commencement of construction or commitment for the expenditure of funds, upon a finding of good cause).

Concomitantly, the commission notes that this Order does not constitute a decision on the merits of HECO's Application. HECO acknowledges that if the commission does not approve the Application, "HECO will have the burden of proof to justify the reasonableness of the capital expenditures in its next rate case."⁸

B.

Procedural Order

The deadline for commission action on the merits of HECO's Application is on or about March 7, 2008, in accordance with Paragraph 2.3(g)(3) of G.O. 7. Accordingly, the commission will instruct the Parties to submit a stipulated procedural order for the commission's review and consideration by January 22, 2008. If the Parties are unable to stipulate to such a procedural order, each party shall submit a proposed procedural order for the commission's review and consideration by the same date.

III.

Orders

THE COMMISSION ORDERS:

1. HECO's request to deviate from the requirement set forth in Paragraph 2.3(g)(2) of G.O. 7, as modified by Decision and Order No. 21002, that HECO file its application at least sixty days prior to the commencement of construction or

⁸HECO's Application, at 10.

commitment for the expenditure of funds for the Project, is approved. HECO, thus, is permitted to commit funds for the Project earlier than the sixty days following the filing of its Application.

2. The Parties shall submit a stipulated procedural order for the commission's review and consideration by January 22, 2008. If the Parties are unable to stipulate to such a procedural order, each party shall submit a proposed procedural order for the commission's review and consideration by the same date.

DONE at Honolulu, Hawaii DEC 20 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

By Leslie H. Kondo
Leslie H. Kondo, Commissioner

APPROVED AS TO FORM:

Michael Azama
Michael Azama
Commission Counsel

2007-0409.sl

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Order No. 23915 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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Karen Higashi

DATED: DEC 20 2007