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PUBLIC UTILITIES COMMISSION

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of HAWAIIAN ELECTRIC COMPANY, INC. For Approval of Rate Increases and Revised Rate Schedules and Rules.	)	DOCKET NO. 04-0113

DIVISION OF CONSUMER ADVOCACY'S RESPONSES TO HAWAIAN ELECTRIC COMPANY, INC.'S INFORMATION REQUESTS

Pursuant to the agreed upon Schedule of Proceedings approved in Order No. 21727 the Division of Consumer Advocacy hereby submits its **RESPONSES TO HAWAIAN ELECTRIC COMPANY, INC.'S INFORMATION REQUESTS** in the above docketed matter.

DATED: Honolulu, Hawaii, July 18, 2005.

Respectfully submitted,

By Cheryl S. Kikuta
CHERYL S. KIKUTA
Utilities Administrator

DIVISION OF CONSUMER ADVOCACY

DOCKET NO. 03-0114

HAWAIIAN ELECTIC COMPANY, INC. ("HECO")

DIVISION OF CONSUMER ADVOCACY ("CA")

RESPONSES TO HECO'S INFORMATION REQUESTS

Mr. Brosch, CA-T-1 is sponsoring the responses to the following information requests.

HECO/CA-IR-102 **Ref: CA-100.**

a. Please describe the witness' experience in the operation and maintenance of power generating stations, including, without limitation, the witness' function or role regarding operation and maintenance activities such as overhaul planning, operator shift scheduling, unit dispatching, safety and/or environmental compliance enforcement, workforce staffing, operator and maintenance training, etc.

RESPONSE: Mr. Brosch's experience is summarized in Exhibit CA-100 and includes 27 years experience in the analysis of public utility operations and regulatory issues arising from such operations. In many previous electric utility rate case proceedings, Mr. Brosch was responsible for the analysis of electric utility production operation and maintenance expenses. Aside from this regulatory experience, Mr. Brosch has not been employed by a public utility where he was personally responsible for power plant operations or maintenance. It is unnecessary and impractical for the Consumer Advocate to retain only regulatory analysts that have previously been employed by utility companies, with personal experience in every departmental function within electric, gas, water, sewer and telephone companies in order to conduct discovery, analyze relevant facts and respond to regulatory issues arising in rate cases.

b. Has the witness ever prepared any manuals or instructional materials on the operation or maintenance of generating equipment? If so, please produce copies of such manuals or materials.

RESPONSE: No, Mr. Brosch cannot recall any instance in which his client requested the production of "manuals or instructional materials on the operation or maintenance of generating equipment."

c. Has the witness ever conducted or produced any studies regarding the number of workers and supervisors needed to operate generating equipment? If so, please produce copies of such studies.

RESPONSE: In prior proceedings, Mr. Brosch has analyzed the staffing requirements and O&M levels for existing, as well as new generating equipment. The question asking if the witness has "ever" conducted or performed such studies is overly broad and cannot be answered succinctly without exhaustive analyses of Mr. Brosch's work in each proceeding he participated in since 1978. However, Mr. Brosch recalls analyses of production O&M staffing and expense levels in the most recent PSI Energy Inc. rate case in Indiana and in the most recent Arizona Public Service Company rate case in Arizona, in which the utilities were seeking cost recovery of actual, existing staffing at newly acquired (from affiliated companies) generating stations. Some of the information in the Arizona and Indiana proceedings was deemed confidential and cannot be disclosed pursuant to confidentiality agreements. However, Attachment HECO/CA-IR-101 contains copies of non-confidential documentation associated with production O&M labor costs presented for recovery in those proceedings. It should be noted that, in Arizona and Indiana, historical test periods generally serve to constrain utility cost recovery proposals to actual expenditures related to actual employees. Indiana and Arizona utilities do not have the opportunity that exists in Hawaii to build into rates hypothetical or desired cost levels for new un-filled positions, while ignoring normal structural employee vacancies caused by resignations, retirements, disability, etc.

HECO/CA-IR-103 **Ref: CA-WP-101-B9, page 3**.

Please explain why the total Non-Labor O&M expense of $115,332 was not adjusted to exclude the impact of pension and OPEB in the calculation of the O&M non-labor payment lag days, if the revision, as stated in Mr. Brosch's testimony, page 112, line 4-7, "completely neutralizes any impact associated with the inclusion of pensions and OPEBs…"

RESPONSE: The $115,332 was left unchanged to match the total test period expense per HECO's filing. What did require revision was HECO's improper inclusion of presumed "zero" expense payment lag days for OPEB and pension expenses within this amount. If the $115,332 amount had been revised to reflect the elimination of the $8,046 (thousand) of OPEB and pension costs, the Consumer Advocate's 31 day weighted revised lag day value would not change.

HECO/CA-IR-104 **Ref: Exhibit CA-101, Schedule B-9, page 1.**

Please provide detailed workpapers showing the following:

a. The derivation of the $-2,251 O&M Labor adjustment.

RESPONSE: The $-2,151 amount is the sum of all Consumer Advocate labor adjustments, as posted within cells J276 through CL276 on the "C Posting" sheet of the electronic exhibit file HECO-CA 101_Rev Req Model.xls. The internal cell references in the Consumer Advocate model are apparent within the cell where the $-2,151 amount appears on tab "B9".

b. The derivation of the $193,975 O&M Non-Labor adjustment, and confirm that this $193,975 O&M Non-Labor adjustment excludes the adjustments related to Fuel and Purchased Power expenses.

RESPONSE: The $193,975 amount is the sum of all Consumer Advocate non-labor adjustments, as posted within cells J297 through CL297 on the "C Posting" sheet of the electronic exhibit file HECO-CA 101_Rev Req Model.xls. The internal cell references in the Consumer Advocate model are apparent within the cell where the $193,975 amount appears on tab "B9". This amount inadvertently includes adjustments related to Fuel and Purchased Power. Thus, the adjustment should have been reduced by the Fuel Expense and the Purchase Power amounts shown separately in the footnote. The effect of this revision is to reduce the Consumer Advocate's working cash allowance in rate base by approximately $3.7 million.

c. The derivation of the "Effect of CA Rate Increase" of $23,968.

RESPONSE: The "effect of the CA rate increase" is simply adding to the Company's lead lag revenue tax and income tax amounts the incremental taxes payable as a result of the Consumer Advocate's proposed rate increase in this Docket. The calculation supporting such incremental taxes are set forth within the spreadsheet cells below the "Effect of CA Rate Increase" on Schedule B-9 of the electronic exhibit file HECO-CA 101_Rev Req Model.xls. Further review of these calculations indicates a need to revise the lead lag study inputs for revenue taxes and income taxes at present rates (before the effects of the CA rate increase) to conform such amounts to CA adjustments. A fully revised Consumer Advocate lead lag study calculation will be submitted upon completion of all required updates and revisions to CA Exhibit 101.

HECO/CA-IR-105 **<u>Ref: CA-T-1, page 111, lines 6-17.</u>**

Is the CA's position that pension and OPEB are cash items or non-cash items in the calculation of working cash?

RESPONSE: It is the Consumer Advocate's position that pension and OPEB test year expense amounts are generally based upon budgeted accruals, rather than cash funding expenditures, pursuant to SFAS 87 and SFAS 106 accounting rules. For purposes of calculating working cash, such accrual-basis expense amounts should only be allowed to impact the working cash results if there has been an analysis of the underlying cash flows associated with funding the pension and OPEB benefits.

HECO has not conducted any analysis of cash flows associated with pension and OPEBs in the conduct of its working cash study, but has instead simply presumed such payment lag days are "zero" in value. This problem is more fully explained in Mr. Brosch's testimony.

HECO/CA-IR-106 **<u>Ref: CA-T-1, page 26, lines 14-16.</u>**

Please explain why the proposed removal of the amortization of gain on sale of $4,817 associated with the Lilipuna transaction, for which amortization was completed in May, 2005, should not be considered an annualization of the zero monthly amortization associated with the transaction at the end of 2005?

RESPONSE: The gain on sale amortization transactions are governed by prior Commission orders that specify amounts to be returned to ratepayers. Because the Lilipuna amortization has expired, it is necessary to normalize the test year to remove the partial year amortization amount included by HECO for this transaction. Absent such a normalization adjustment, ratepayers would continue to benefit from lower electric rates reflecting a total amortization amount over future year exceeding the ordered total gain on sale amortization.

HECO/CA-IR-107 **Ref.: CA-T-1, page 48, line 12 through page 49, line 13.**

a. Please explain why budget variance reports or data are necessary to determine whether the availability of Honolulu Units 8 & 9 and Waiau Units 3 & 4 should be increased from 16 hours per day, 5 days per week to 24 hours per day, 7 days per week?

RESPONSE: This question takes the referenced CA-T-1 testimony completely out of context. The referenced testimony is addressing HECO's demonstrated ability to exercise discretion in constraining its expenditures, by deferring hiring and avoiding cost increases historically, while apparently ignoring such cost reduction opportunities in formulating its rate case forecasts. This concern is stated in the referenced CA T-1 testimony, "In an effort to evaluate whether HECO's historical ability to constrain hiring and spending has suddenly and irreversibly ended, several information requests were submitted by the Consumer Advocate." HECO's efforts to prevent the Consumer Advocate from obtaining copies of the Company's variance reports through discovery may deny the Commission valuable insight into the difference between <u>actual</u> cost performance and management's ability to contain <u>actual</u> costs – versus the unconstrained incentive that exists for management to presume large cost increases and no cost containment when preparing rate case <u>forecasts</u>.

b. Is it the position of the Consumer Advocate that the availability of Honolulu Units 8 & 9 and Waiau Units 3 & 4 should not be increased from 16 hours per day, 5 days per week to 24 hours per day, 7 days per week? If your answer is "yes", please state all facts which support your position and produce all studies or analyses, including any workpapers, which support your position.

RESPONSE: The Consumer Advocate believes that HECO has the burden of proof regarding the reasonableness of its proposed test year staffing. CA T-1 explains at pages 53 through 61 that the Company was unable to produce any studies in support of its decision to increase staffing by year-end and that HECO has failed to account for overtime savings that should result from increased staff counts or for staffing vacancies that produce cost savings in the normal course of business. In addition, the Company has not calculated its labor costs on an average test year basis, consistent with the measurement of sales/revenues and other elements of the revenue requirement. Nevertheless, as noted at CA-T-1 page 55, "... in spite of the absence of any formal studies, some need for increased staffing exists to reduce recent overtime levels." Page 59 of CA-T-1 describes the Consumer Advocate's position regarding production department staffing decisions and explains the basis for why such a position "has probably erred in the Company's favor and overstated labor costs somewhat for the 2005 test year."

c. Assuming that the availability of Honolulu Units 8 & 9 and Waiau Units 3 & 4 is increased from 16 hours per day, 5 days per week to 24 hours per day, 7 days per week, is it the position of the Consumer Advocate that no additional operators are needed to operate the generating units during the longer hours of availability? If your answer is "yes", please state all facts which support your position and produce all studies or analyses, including any workpapers, which support your position.

RESPONSE: No. See the response to part (b) and CA-T-1 at pages 54 through 65.

HECO/CA-IR-108 **Ref: CA-T-1, page 54, line 5 to page 55, line 11.**
Regarding changing the operation of Honolulu 8 and 9 and Waiau 3 and 4 from 2 shift, 5 day per week operation (10 shifts, or 16 X 5 = 80 hours per week) to 3 shift, 7 day per week operation (21 shifts, or 24 X 7 = 168 hours per week), please describe the CA's understanding of how the staffing level for the units could be changed to provide operator coverage for the Shift Supervisor (H8&9 only), Utility Operator (H8&9 only), Control Operator, Junior Control Operator, and Equipment Operator positions for all operating hours. What staffing changes could be implemented to cover the operator requirements for the additional 88 hours per week or 32,120 hours per year of unit operation?

RESPONSE: As noted in response to HECO/CA-IR-106(b), the Consumer Advocate has recognized a need for increased staffing and has incorporated HECO's projected staff-counts within the test year-end headcounts used to estimate test year labor costs. As explained at CA-T-1, page 63, this approach is consistent with the average test period and makes some accounting for overtime displacement savings that HECO has ignored, for the labor costs avoided due to normal vacancies caused by resignations, retirements and other forms of employee turnover that HECO has ignored, and for the "Even Hiring Lag" that HECO uses for its operating budgets but not its rate case budgets. No alternative staffing plans or changes have been studied or proposed by the Consumer Advocate.

HECO/CA-IR-109 **Ref: CA-T-1, page 55, line 16**.

The CA states that there was an "absence of any formal studies" to justify the need for increased staffing at Honolulu 8 and 9 and Waiau 3 and 4. In addition to understanding the specific positions required to man an additional shift to ensure reliable, safe and compliant operation of H8&9 and W3&4, what additional analysis is required to warrant a study to justify the increase? What would be the nature of such a study?

RESPONSE: It is reasonable to expect some formal documentation of the need and cost justification for the proposed large increases in staffing HECO seeks in this rate case. Upon the submission of repeated discovery requests by the Consumer Advocate for copies of such documentation, one might have expected HECO to have produced copies of internal documentation used by Production Department personnel to seek approval from senior management to increase staffing. Alternatively, HECO might have prepared calculations quantifying actual volumes of work that was in backlog status or indications of reduced unit availability or constraints upon dispatch ability at H8&9 and W3&4 because of inadequate staffing. HECO might have provided quantification of avoidable overtime hours with increased staffing levels or of avoidable contract labor costs achievable with increased staffing. HECO did not provide any documentation or studies to support its claim in response to the numerous discovery requests posed by the Consumer Advocate in discovery.

Mr. Alm (HECO T-1) at pages 18 and 19 describes prior periods when "HECO implemented staff caps, and staffing levels were carefully monitored. Vacancies were not automatically filled. **Each position had to be justified** in light of current circumstances..." [emphasis added]. It is the position of the Consumer Advocate that HECO has the burden of proof to demonstrate the reasonableness of its proposed staffing levels and agrees with Mr. Alm that "each position has to be justified," particularly when actual hiring has not occurred at projected test year levels and the Company's own internal (non-rate case) budgets are based upon an "even hiring lag" assumption.

HECO/CA-IR-110 **<u>Ref: CA-T-1, page 69, line 10 to page 70, line 10.</u>**

Please state the CA's understanding of the amount of funds that exist in the Clean Air Special Fund-COV for the years 1993 to date. Please also state the CA's understanding of the Department of Health's management of the fund by answering the following questions:

a. Will the director of the Department of Health always allow a waiver of the fee when the fund exceeds $6,000,000?

RESPONSE: Mr. Brosch is not tasked with providing a legal interpretation of the applicable administrative rules or statutes. It is, however, his lay opinion that according to HAR § 11-60.1-112(h), with EPA approval, the DOH Director can waive annual fees due from owners or operators of covered sources for the following calendar year, provided that funds in excess of $6 million will exist in the Clean Air Special Fund-COV accounts as of the end of the current calendar year. The Consumer Advocate's adjustment is not premised upon the granting of Emission Fee waivers in <u>every</u> year when the fund exceeds $6 million.

b. For what purposes is the fund utilized?

RESPONSE: Application and Annual Fees are to be collected and used to cover the direct and indirect costs to develop, support, and administer the air permit program.

c. How quickly is the fund utilized?

RESPONSE: It was not necessary for the Consumer Advocate to analyze overall fund expenditure levels or replenishment levels to observe how HECO assessments and payments have been affected by the waiver process. HECO relied upon historical experience to develop an average waiver rate percentage to apply to annual assessment amounts in formulating its normalization adjustment without analyzing DOH fund expenditure or fund replenishment rates. In its response to CA-IR-183, the Company provided 12 years of historical data illustrating that no Emission Fee waivers occurred in the first five years for HECO operations, while waivers did occur more recently for fees payable in 1999, 2002 and 2004. The Consumer Advocate's interpretation and application of this data is described at pages 68 through 70 of CA-T-1.

d. How quickly is the fund replenished?

RESPONSE: See the response to part c.

e. How many owners and operators of covered sources are there in the State of Hawaii?

RESPONSE: See the response to part c.

f. What assurances would any owner or operator of a covered source have for a waiver of the fee?

RESPONSE: See the response to part c.

g. Based on the answers to the above questions, please describe the basis for the CA's recommendation that "more recent experience be relied upon to estimate the fee waiver factor"?

RESPONSE: See the response to part c.

HECO/CA-IR-111 **Ref: CA-T-1, page 63, line 1 to page 63, line 17**.

Is it the position of the CA that, when reviewing operating expenses in a ratemaking proceeding, staff vacancies created by routine events such as retirements, terminations, transfers, etc., should be treated in the same manner as new staff positions created to address new or different operations, such as changing operations from 2 shifts, 5 days per week to 3 shifts, 7 days a week, or adding a new night shift maintenance crew? Please state the reasoning and basis for your response.

RESPONSE: It is not clear what is meant by "treated in the same manner as new staff positions created to address new or different operations..." However, the Consumer Advocate's concern with staff vacancies created by routine events is that the costs avoided because of this normal phenomenon of structural vacancies resulting from retirements, terminations, transfers, etc.should not be ignored when rate case revenue requirements are being developed. HECO's rate case budget workpapers illustrate a full staffing assumption that ignores the existence of vacancies that cannot be avoided in actual operations. HECO improperly assumes labor costs associated with full employment of all budgeted positions in all months of the test period, even though many of the positions will at any given point in time be "vacant."

HECO/CA-IR-112 **<u>Ref: CA-T-1, page 51, lines 18-20.</u>**

The CA states "HECO has failed to account for avoidable overtime or contractor charges that should at least partially offset the cost of newly hired employees."

a. Please provide the specific amount of "contractor charges" referred to in this testimony and state the factual basis for this testimony.

RESPONSE: The Consumer Advocate has not developed any specific amount of contractor charges that are avoidable due to HECO's proposed staffing increases and has proposed no adjustment based upon avoidable contractor charges. Please refer to CA-T-1, page 61, where it is noted that "the Company's rate case forecast appears to overstate all costs, because projected staffing is increased and vacancies are presumed to not exist, yet projected overtime hours and costs for outside services have not declined relative to historical levels." The specific non-labor adjustments listed at CA-T-1, page 65, line 18 through page 66, line 11 are <u>not</u> premised upon any displacement of contractor charges due to increased staffing levels that have been allowed by the Consumer Advocate.

b. Is it the CA's understanding that contractor labor is available locally in Hawaii to competently fill positions as Shift Supervisor, Control Operator, Junior Control Operator, Utility Operator, or Equipment Operator to operate HECO's generating units?

RESPONSE: It was not necessary for the Consumer Advocate to conduct any study to determine whether contractor labor is available locally in Hawaii to competently fill positions as Shift Supervisor, Control

Operator, Junior Control Operator, Utility Operator, or Equipment Operator to operate HECO's generating units. Please see the response to part (a) of this information request.

c. Please provide a list of the known locally available sources.

RESPONSE: Not Applicable, see part (b).

d. Please explain the CA's understanding of the type, duration, and cost of training that would be required to bring non-HECO contractor personnel up to a performance level which would ensure safe, reliable, and environmentally responsible operation of HECO's generating units.

RESPONSE: Not Applicable, see parts (a) and (b).

HECO/CA-IR-113 **Ref: CA-T-1, page 56, line 1.**

The CA states "overtime is equivalent to about 15 full time positions working 2080 hours each per year".

a. Is it the CA's position that each full time employee spends 2080 hours per year on the job performing the duties of his or her position? If so, please state the basis for your position, and in particular, reconcile your position with the applicable provisions of collective bargaining agreement(s) for the positions at issue.

RESPONSE: No. The intent of the discussion contained in this testimony passage was to estimate an equivalent number of full-time employees based upon a presumption that reasonable overtime levels worked by new employees might be sufficient to offset their non-productive time associated with vacations, sick time and other paid time off. These calculations were not employed in the determination of the Consumer Advocate's labor cost adjustment, but were instead formulated in an attempt to rationalize HECO's proposed staffing additions by reference to avoidable overtime. Unfortunately, as noted in the very next question and answer at CA-T-1, page 56, HECO has inexplicably failed to account for expected overtime savings in its forecasts and has actually budgeted an increase in Waiau overtime hours in spite of increased staffing levels at that station.

b. What is the CA's position on how much non-productive time should be allowed per operator position per year for vacation, holidays, short term absences, long term absences, training, and other non-productive work requirements?

RESPONSE: The Consumer Advocate has not formulated any position on how much non-productive time should be allowed per operator position per year for vacation, holidays, short term absences, long term absences, training, and other non-productive work requirements. The labor cost adjustment proposed by the Consumer Advocate fully accounts for such non-productive time using Company-proposed non productive time loadings.

c. Is it the CA's position that coverage for non-productive time is done on a straight time basis? If so, please state the basis for your position, and in particular, reconcile your position with the applicable provisions of collective bargaining agreement(s) for the positions at issue.

RESPONSE: No. Please see the responses to parts (a) and (b).

HECO/CA-IR-114 **Ref: CA-T-1, page 43, line 6 to page 44, line 3.**

Please explain the CA's understanding of generation capacity vs. the staffing required to operate the generating unit providing that capacity. Please use the example of a unit capable of generating 50 MW but operated on a 16 hour (2 shift), 5 day schedule versus the same 50 MW unit operating on a 24 hour (3 shift), 7 day a week schedule.

a. What is the change in generation capacity of the unit?

RESPONSE: The generation capacity of a 50 MW unit is the same whenever the unit is available for dispatch. When there is not adequate staffing available to safely operate the unit, either during regular hours or with overtime staffing outside regular hours, the unit would not be available for dispatch.

b. What is the change in staffing requirements for operation of the unit?

RESPONSE: Please see the response to part (a) of this information request. It is not clear what is meant by "change in staffing requirements." The capacity of the unit is only available for dispatch when the unit can be safely operated by competent personnel.

c. Please provide all analyses including workpapers to support your position.

RESPONSE: No analyses are required for the responses given to parts (a) and (b) of this information request.

HECO/CA-IR-115 **<u>Ref: CA-T-1, page 59, line 5 to 7</u>**.

The CA states "Continuous turnover in the workforce is a normal phenomena resulting from retirements, resignations, terminations for cause, disabilities and other causes." In the case of a long-term absence by a generating unit operator, such as family medical leave, what kind of staffing or work adjustments would the CA propose to offset this type of absence?

RESPONSE: When an individual sick leave situation progresses to a long-term absence situation, such that work requirements can no longer be met by imposing reasonable overtime levels upon other existing staff, it may be necessary to begin taking steps to replace the employee on long-term absence. However, for some period of time, there is likely to be a vacancy that produces labor savings while notification, search, interview and approval processes are undertaken for the new employee. The Consumer Advocate has included labor costs for <u>every</u> position that was filled by HECO at 12/31/2004 and for <u>every</u> position that was budgeted by HECO at 12/31/2005, as well as ample allowances for non-productive time (paid absences) and for overtime that would allow some coverage for sick leave situations.

HECO/CA-IR-116 **Ref: CA-T-1, page 90, line 1-13.**

a. Please identify what, if any, objective criteria were used by the witness in deciding which items should be removed from 2005 Production O&M Priority List.

RESPONSE: The Consumer Advocate accepted the criteria provided by the Company in response to CA-IR-244 that characterized the specific listed projects as "D" for "Discretionary" and "1" for "Lowest Priority." All of the "ND" or "Non-discretionary" projects were left fully funded in the test period. In addition, all of the projects on HECO's priority list that were designed "D" for "Discretionary" and had either a "Medium" or "Highest" priority coding were left fully funded in the test period.

b. Does the CA believe it to be reasonable to eliminate spending in identified lower priority work activities to offset spending more than anticipated in identified higher priority or unforecast high priority work activities?

RESPONSE: The Consumer Advocate believes that in the short term many maintenance projects are discretionary and HECO has acknowledged that it is capable of constraining expenditure levels when desirable. The Consumer Advocate's overall production maintenance expense allowed in the test period is conservatively generous to HECO in accepting all of the staffing increases at year-end, providing for all medium and high priority work discretionary projects, allowing all of the Company's proposed overhaul-related non-labor costs and accepting all of the

Company's proposed non-discretionary projects listed in CA-IR-244.

HECO/CA-IR-117 **Ref: CA-T-1, page 39, line 1-5**.

The CA states that "HECO has notably done a good job of operating its fleet of generating units, achieving good unit reliability and relatively stable expense levels in recent years and has provided no substantive documentation to support the claimed increase in expenses for the test year."

a. Is it the CA's position that low recorded annual Equivalent Forced Outage Rates (EFOR), high recorded annual Equivalent Availability Factors (EAF), and stable recorded expenses levels can be maintained indefinitely and that HECO will be able to continue to provide reliable electric service to Oahu into the future at the staffing levels recommended by the CA? If your answer is "yes", please state all facts which support your position and produce all studies or analyses, including any workpapers, which support your position.

RESPONSE: The Consumer Advocate has proposed staffing and expense levels for the Company's Production Department that are higher than historical expense levels to ensure that HECO will be able to continue to provide reliable electric service to Oahu into the future.

b. Does the CA believe that work to maintain HECO's generating equipment should be focused not only on addressing immediate maintenance needs, but also on addressing long term maintenance which will ensure long term reliability of the generating units?

RESPONSE: Yes. The Consumer Advocate has proposed staffing and expense levels sufficient to perform all scheduled unit overhauls and to perform other routine corrective, predictive and preventive maintenance required to maintain long-term reliability of generating units.

HECO/CA-IR-118 **Ref: CA-T-1.**

Does the CA believe that forecast Production Maintenance Non-labor expenses are used solely for the single station and work item for which the forecast was made and not allowed to shift to other stations and work items (use it or lose it) as priorities change?

RESPONSE: No. The Consumer Advocate believes that significant discretion is involved in allocating and shifting resources among alternative maintenance projects and in determining the total amount of resources to apply in any particular period. The Consumer Advocate does not agree with the suggested "use it or lose it" philosophy if expenses allowed by the Commission are being spent by HECO purely out of concern that cost reduction initiatives may result in lower rates for consumers rather than higher returns for shareholders.

Mr. Alm (HECO T-1) at pages 18 and 19, describes prior periods when "HECO implemented staff caps, and staffing levels were carefully monitored. Vacancies were not automatically filled. Each position had to be justified in light of current circumstances and, whenever the opportunity presented itself, HECO managed with less than was necessary in the long term." Such careful cost constraints should also be expected of the utility during rate case test periods.

HECO/CA-IR-119 **Ref: CA-T-1, page 83, line 16 to page 84, line 9**.

a. Does the CA acknowledge that the purpose of the Night Maintenance personnel is to perform additional maintenance work beyond the current capability of the regular day time maintenance personnel utilizing off-peak periods to perform the work? If your answer is "no", please describe your understanding and provide the basis for your understanding.

RESPONSE: Yes. The Consumer Advocate's labor cost adjustments accept HECO's proposed increase in staffing for Night Maintenance personnel to perform such a role.

b. Is it the CA's position that no overtime should be incurred by Production Operations or Maintenance personnel, such as working beyond the normal work day, on weekends, holidays, etc., to perform high priority work that impacts reliability, safety and/or environmental compliance so that HECO can provide reliable, safe and environmentally compliant power? If your answer is "yes", please state all facts which support your position and produce all studies or analyses, including any workpapers, which support your position.

RESPONSE: The Consumer Advocate has not taken the position that "no overtime should be incurred by Production Operations or Maintenance personnel."

HECO/CA-IR-120 **Ref: Exhibit CA-101, Schedule E, Page 1, lines 5, 7 and 8.**

Please confirm that the rate base adjustments made for the elimination of the Combined Heat & Power Projects (line 7: $4,959,000 reduction to average rate base) and the addition of Distributed Generation Rate Base Investments (line 8: $1,054,000 increase to average rate base) are not necessary since those adjustments were already reflected in the Update of Net Plant Additions (line 5: $8,264,000 reduction to average rate base). In this regard, please refer to HECO's June 15, 2005 Update Letter to the Consumer Advocate and Department of Defense, the Combined Heat & Power Projects are not included in Attachment 6 and the Distributed Generation Projects are listed on page 7 of Attachment 6 as "P0001125 DG Substation - $2,093,753".

RESPONSE: This is confirmed. HECO's June 15, 2005 Update Letter did not identify the change in the basis used to develop the Attachment 6 Plant Additions. However, upon closer inspection, it is apparent that HECO's June 15 Plant Additions revision has now excluded the CHP projects and included the DG substation investment. The Consumer Advocate will incorporate these changes upon completion of all required updates and revisions to CA Exhibit 101.

HECO/CA-IR-121 **Ref: Exhibit CA-101, Schedule B-1, page 1 of 1, line 14**.

Please confirm that the updated 2005 depreciation/amortization accrual estimate should be $80,080, as referenced in CA-IR-514.

RESPONSE: Yes.

HECO/CA-IR-122 **Ref: Exhibit CA-101, Schedule B-1, page 1 of 1, footnote (b)**.
Please provide detailed workpapers showing the source and calculation of the following:

a. Accumulated depreciation adjustment of $5,282.

RESPONSE: The $5,282 amount includes the difference between recorded Accumulated Depreciation at 12/31/2004 of $856,146 per DOD/HECO-IR-9-3, page 2 and the associated projected amount of $860,086 as of 12/31/2004 at Exhibit HECO-1902, plus the change in test year depreciation accruals shown at line 15 of Schedule B-1 in the amount of $1,342. A revision will be made to conform line 14 depreciation expense to apply a 50% weighting to the $80,080 amount provided in response to CA-IR-514, causing the $1,342 amount to change to $1,394 and the $5,282 amount will change to $4,637. The Consumer Advocate will incorporate these changes upon completion of all required updates and revisions to CA Exhibit 101.

b. Removal cost of liability of $12,903.

RESPONSE: The Removal cost liability adjustment is a residual amount that is incorrect, due to the problems identified in response to part (a) of this information request, as well as a formula error. Upon revision, the footnote b amounts for posting of the CA adjustment will appear as follows:

Plant in Service Adjustment at Average	(11,941)
Accumulated Depreciation Adjustment	4,637
Removal Cost Liability	(934)
Total Adjustment to Rate Base	(8,238)

These revisions will match the update results HECO proposed in its response to DOD/HECO-IR-9-3, except for the Removal Cost Liability amount which is different due to the Consumer Advocate's adjustment factor on line 6 of Schedule B-1 that is applied to estimated removal costs and salvage in 2005.

HECO/CA-IR-123 **Ref: CA T-1**.

a. Are there any analyses or computations that the witness, or someone acting on his behalf, performed that are not included in the witness' testimony? If so, please describe in detail all such analyses or computations and provide copies of all documents relating thereto.

RESPONSE: The Consumer Advocate objects to this question as being vague, overly broad, burdensome and not reasonably calculated to lead to the discovery of admissible evidence. Consumer Advocate witnesses rely primarily upon the prefiled testimony, exhibits and workpapers of HECO, as well as the many voluminous documents and electronic files produced by HECO in response to Information Requests. These documents are already in the possession of HECO. In many instances, Consumer Advocate witnesses review HECO-prepared workpapers and IR responses adding margin notations, tic-marks, side-calculations and other analyses that serve no purpose beyond simply verifying HECO's calculations and confirming that the amounts proposed by HECO are <u>not</u> in dispute. The Consumer Advocate's witnesses have identified by footnote or reference notation <u>each</u> of the specific sources that are relied upon throughout their testimony and throughout the Consumer Advocate Accounting Schedules. It is unreasonable and burdensome to impose a further obligation upon the Consumer Advocate or its witnesses to identify and "describe in detail" all such analyses or computations and provide copies of all documents when these efforts are not associated in any way with issues in dispute in this

Docket. If HECO must review the tic marks and margin notations placed upon the voluminous files of IR responses and other electronic files used by Utilitech to evaluate the Company's filing in areas that did not result in any ratemaking adjustment, Utilitech will make the boxes of such files available in its offices in Lee's Summit, Missouri during normal business hours and upon reasonable advance notice for review and copying by HECO personnel.

b. To the extent not identified in response to specific HECO Information Requests, please identify all documents upon which the witness relied in formulating the opinions and conclusions contained in his testimony.

RESPONSE: Sources relied upon for each ratemaking adjustment sponsored by Mr. Brosch are identified within the "reference" areas of Exhibit CA-101 and supporting workpapers or within the CA-T-1 testimony and related footnotes.

c. Will the witness perform any additional work in this matter prior to the hearing? If so, please describe in detail what work the witness performs.

RESPONSE: Mr. Brosch expects to perform the necessary work required to prepare for hearings in this Docket, including reviewing HECO and DOD evidence, assisting in the preparation of cross-examination materials, attending hearings and conducted other work requested by the Consumer Advocate.

Mr. Carver, CA-T-2 is sponsoring the responses to the following information requests.

HECO/CA-IR-201 **Ref: Exhibit CA-101, Schedule C, page 4.**

Please explain and provide all workpapers showing how the adjustment of ($246,000) shown on C-20 is allocated to the various O&M block of accounts on lines 5 through 11 (in column E).

RESPONSE: No additional workpapers are necessary. See tab "C Posting" of the Consumer Advocate spreadsheet file "HECO-CA 101_Rev Req Model.xls." Column AV (rows 253 through 337) shows the allocation of the referenced overtime adjustment between the various O&M account blocks. The allocation was based on the distribution of HECO labor cost, as set forth in Column H of that same "tab" in lieu of undertaking a detailed analysis of HECO's spreadsheet files referenced as the source on CA Adjustment C-20, Footnote (a). A more detailed account distribution was not undertaken as the result of such an effort was expected to have an immaterial impact on overall revenue requirement. However, if HECO presents a more detailed O&M distribution of its own estimated overtime analysis, Mr. Carver is willing to review and consider the results of such an undertaking.

HECO/CA-IR-202 **<u>Ref: CA-101, Schedule C-22</u>**.

a. Please explain the adjustment in Column E - "Included in Other CA Adjustments" and provide the location of Footnote (b) "CA Adjustment C-29".

RESPONSE: Recognizing that other Consumer Advocate adjustments may already adjust HECO's revised 2005 test year forecast, the purpose of Column (E) of CA Adjustment C-22 was to recognize any such adjustments and avoid any duplication or overlap between the adjustments.

Footnote (b) of CA Adjustment C-22 should have referenced CA Adjustment C-16, not CA Adjustment C-29. Subsequent to the preparation of CA Adjustment C-22 and the referenced footnote, the Consumer Advocate spreadsheet file "HECO-CA 101_Rev Req Model.xls" was reorganized and certain adjustments were renumbered. The reference to CA Adjustment C-29 is an inadvertent oversight. Referring to the "C 22" tab of "HECO CA 101_Rev Req Model.xls," the amount in cell "M19" contains a cell reference to CA Adjustment C-16. There is no revenue requirement impact of the incorrect schedule reference.

b. Referring to the response to part (a) above, please confirm whether the CA's adjustment of $52,000 is the same adjustment that HECO reflected with the June 15, 2005 update on Attachment 8, page 1, line 5 "Other Benefits/Administration", column (j). Also refer to footnote (c) on Attachment 8 for the detailed breakdown of HECO's adjustments, which included the $52,000 reduction to Other Benefits/Administration expenses.

RESPONSE: See the response to item (a) above and Footnote (a) of CA Adjustment C-16.

c. Do you agree that the CA's adjustment of $52,000 should be removed so that the same adjustment that HECO had already reflected is included only once?

RESPONSE: No. Mr. Carver believes that a revision to CA Adjustment C-22 is necessary, but not for the purpose described in the question. Since HECO has not yet revised its filed revenue requirement, the starting point for the Consumer Advocate adjustments is HECO's original filing. Although the June 15, 2005 update does identify adjustments that the Consumer Advocate understands HECO plans to make, none have yet been recognized in any formal Company filing for purposes of updating overall revenue requirement.

The purpose of Column (E) of CA Adjustment C-22 is described in response to item (a) above. In reviewing CA Adjustment C-22 in responding to this question, Mr. Carver did observe that Line 5 contains an error in Column (E). Cell "M19," as referenced in response to item (a) above, contains a cell reference to CA Adjustment C-16, which reverses the "sign" of the $52,000 item (see Line 4 of CA Adjustment C-16). Column (F) of CA Adjustment C-22 should have then added the amounts in Column (D) and Column (E) to avoid any duplication with other adjustments recognized by the Consumer Advocate. Unfortunately, the cell formula in Column (F) deducted the amount in Column (E) from Column (D), inadvertently overstating the net adjustment amount.

CA Adjustment C-22 should be revised, increasing operating expense by about $104,000, but not for the reason stated in the question.

HECO/CA-IR-203 **Ref: CA-T-2, page 7, lines 8-11.**

What are the accounting and financial statement implications to HECO of the ratemaking treatment of prepaid pension asset proposed in CA adjustment B-10 (Exhibit CA-101)?

RESPONSE: There are no accounting and financial statement implications to HECO resulting from Commission adoption of the Consumer Advocate's proposed exclusion of the pension asset from rate base, which is the subject of CA Adjustment B-10. HECO's pension accounting is consistent with FAS87, which does not and will not change as a result of CA Adjustment B-10

HECO/CA-IR-204 **Ref: CA-T-2, page 9, line 3.**

For each of the cases listed:

a. Please provide a detailed description of the respective utility's pension and proposed ratemaking treatment of its pension.

RESPONSE: The Consumer Advocate objects on the basis that complying with the request would be overly burdensome and seeks information as readily available to the Company as it is to Mr. Carver, Utilitech or the Consumer Advocate. Without waiving this objection, Mr. Carver responds as follows:

Each utility identified on CA-T-2, page 9, line 3, had adopted and maintained its pension accounting consistent with FAS87. In general terms, pension expense for ratemaking was also consistent with FAS87 and the identified utilities sought to include the pension asset in rate base. See the responses to parts (b), (c) and (g) below.

b. Please provide copies of the respective utility's testimony relating to pension and prepaid pension asset.

RESPONSE: Utilitech does not retain copies of utility testimony for indefinite periods of time in the ordinary course of business, particularly involving projects dating back to the early to mid 1990's. See HECO/CA-IR-204, Attachment A for copies of the non-confidential, non-voluminous pension asset testimony of each utility that is readily available from Utilitech's files. All other testimony is a matter public record and is as readily available to HECO as it is to Utilitech.

c. Please provide copies of your testimony relating to pension and prepaid pension asset.

RESPONSE: See HECO/CA-IR-204, Attachment B for copies of the non-confidential, non-voluminous pension asset testimony of Mr. Carver. In addition to the utility proceedings identified on CA-T-2, page 9, Mr. Carver has also presented testimony in three additional proceedings in Oklahoma (PSO PUD-920001342, PSO PUD-960000214 & OGE PUD-960000116). It should be noted that Mr. Carver's testimony in each docket generally summarizes the pension accounting and pension asset recommendations of the involved utility.

d. How did the respective Commission rule in each of the cases listed?

RESPONSE: Except for Qwest Corporation (fka US West Communications) in Arizona (ACC Docket No. E-1051-93-183), Washington (WUTC Docket No. 930074) and Utah (PSCU Docket No. 97-049-08), each docket was resolved by negotiated settlement. The procedural schedule in the pending Arizona Docket involving Qwest Corporation (T-1051B-03-0454), in which Mr. Carver's direct testimony explains why the Company's proposed rate base inclusion of the pension asset was not contested by Staff, is currently suspended pending completion of ongoing settlement negotiations. In each of the litigated proceedings, the State commissions excluded the pension asset from rate base.

While Utilitech may be provided copies of final Commission decisions in many dockets in which the firm participates, Utilitech does not necessarily receive or retain copies of the final orders in every docket. However, Mr. Carver does not recall any of the stipulated agreements specifically addressing the pension asset issue, as is common in most jurisdictions. See HECO/CA-IR-204, Attachment C for excerpts from the orders in those proceedings in which the pension asset was litigated. In each of these decisions, the commission excluded the pension asset from rate base

e. Please provide a copy of the respective Commission's ruling on the treatment of prepaid pension asset.

RESPONSE: See the response to part (d) above.

f. How did the resulting ratemaking treatment of the prepaid pension asset impact the respective utility's financial accounting and financial statements?

RESPONSE: The exclusion of the pension asset did not impact the utility's financial accounting and financial statement reporting of the pension asset, as the public financial statements and underlying accounting records are maintained in compliance with FAS87.

g. Please provide all of your testimonies and the presiding commission's decision and order(s) in any other proceeding in which you presented testimony on pension assets.

RESPONSE: See the responses to parts (c), (d) and (e) above.

HECO/CA-IR-205 **Ref: CA-T-2, page 56, lines 6-9.**

a. Please quantify the "limited administrative costs" that are associated with DSM program related costs that were not removed from the Company's 2005 forecast.

RESPONSE: The cited testimony language was rather inartfully worded. This passage referred to the base IRP planning costs. See CA Adjustment C-17, line 3 and Footnote (b) for further clarification.

b. Please provide a cite in the Commission's Decision and Order No. 21698, Docket No. 04-0113, that requires the separation of DSM program expenses already in base rates from HECO's rate case and places them into the Energy Efficiency Docket.

RESPONSE: Decision and Order No. 21698 does not explicitly require the separation of the DSM program expenses already in base rates and place them into the Energy Efficiency Docket. Similarly, Decision and Order No. 21698 does not explicitly state that the cost of the existing DSM programs should remain in base rates at this time.

Ordering Paragraph 2 authorizes HECO to "temporarily continue" the existing two residential DSM programs and the three C&I DSM programs – "until further order by the commission." The Consumer Advocate believes that such an order or condition does not provide sufficient certainty that these programs will continue as proposed in the years subsequent to the instant rate proceeding to allow for the inclusion of the program costs in base rates, consistent with the normalization and on-going cost principles of ratemaking theory. In addition, there is presently no assurance that the Commission will approve, for cost recovery, the amounts that HECO has included in the 2005 test year forecast to support base rate inclusion at the present time. Page 12 of Decision and Order No. 21698 provides further direction as to the treatment of the proposed DSM program costs by linking the temporary continuation of the existing DSM programs with the "pending disposition of the Energy Efficiency Docket."

Further, at page 12 of Decision and Order No. 21698, the fourth issue identified by the Commission to be taken up in the Energy Efficiency Docket was the very matter of cost recovery: "For utility-incurred costs, what cost recovery mechanism(s) is appropriate (e.g., base rates, fuel clause, IRP Clause)."

HECO/CA-IR-206 **<u>Ref: CA-T-2, page 57, lines 1-11.</u>**

In CA-IR-533, HECO states, "In light of the concerns raised by the Consumer Advocate, the Commission's decision, and the critical need to encourage residential customers to adopt cost-effective conservation resources and practices, HECO intends to add $750,000 to its test year <u>general advertising budget</u> in order to enhance the Company's ability to educate and inform its customers about ways that they can save energy and reduce their peak demands." (Emphasis added.)

Please explain why the inclusion in base rates of corporate advertising costs, that are separate from DSM Program costs, should be rejected and taken up in Docket No. 05-0069 instead.

RESPONSE: See CA-T-2, page 58, line 9 through page 59, line 15.

HECO/CA-IR-207 **<u>Ref: CA-T-2, page 58, lines 9-22.</u>**

a. Please provide details on why HECO's plans to undertake an aggressive marketing effort would be "inappropriately injected into the current rate case proceeding" if allowed in base rates.

RESPONSE: A similar aggressive marketing effort was recently rejected by the Commission in April 2005, as indicated in the cited testimony. HECO did not seek base rate recovery of such marketing costs until after the Decision and Order No. 21756 was issued and failed to notify the parties of its base rate recovery plans until June 9, 2005, as stated on CA-T-2, page 57. As such, the Consumer Advocate's ability to consider and discover the late introduction of this issue into the rate case has been irreparably impaired. Rather than allow HECO to gain what the Consumer Advocate perceives as an unfair advantage through the late introduction of this issue into the rate case and, in effect, circumvent the Commission's rejection of similar marketing costs in Docket No. 03-0142, the costs associated with an aggressive marketing effort focusing on DSM and customer awareness of energy options and conservation should be removed from the instant rate proceeding.

HECO/CA-IR-208 **Ref: CA-T-2, page 60, lines 1-14.**

a. Please explain why $685,000 of IRP Administrative Costs is includable in base rates while $618,000 of incremental IRP costs are not.

RESPONSE: The Consumer Advocate proposed to include in the 2005 forecast test year HECO's Base IRP costs (i.e., $685,000) and exclude the costs associated with the Company's "normalized" incremental IRP general planning costs (i.e., $618,000), continuing the current cost recovery approach, as described by HECO T-10 at page 63. Referring to HECO-1029, the Company's "normalized" incremental IRP planning costs represent a three-year average of 2003 actual, 2004 forecast and 2005 forecast amounts.

As indicated on HECO-1029, the amounts for the two forecast years are significantly higher than the 2003 actual amount. In addition, the 2003 actual amount is significantly higher than HECO's proposed incremental amounts associated in calendar years 1998-2002, which have been disputed by the Consumer Advocate. Rather than inject those quantification disputes into the pending rate case, the Consumer Advocate has not quantified a "normalized" amount, as was done in the last HELCO rate case, Docket No. 99-0207. Unlike Docket No. 99-0207, the Commission has opened the Energy Efficiency Docket in which the recovery of the incremental IRP general planning costs can be considered.

b. Please provide a cite in the Commission's Decision and Order No. 21698, Docket No. 04-0113, that separates IRP incremental expenses from HECO's rate case and places them into the Energy Efficiency Docket.

RESPONSE: See the response to HECO/CA-IR-205(b).

HECO/CA-IR-209 **Ref: CA-T-2, page 81, lines 16-19.**

The CA's adjustment C-21 adjusts the Company's operating budget for "open" positions. As shown in DOD/HECO-IR-8-8, page 6 of 11, some of the Energy Services/IRP "open" positions are related to DSM programs. Please provide a revised adjustment for Account 910 Customer Services that removes the effect of "open" DSM positions.

RESPONSE: In the limited time available, Mr. Carver has not been able to perform the requested calculations to revise CA Adjustment C-21. HECO possesses all necessary information to perform this calculation. Assuming that HECO has provided all necessary information required for the Consumer Advocate to perform these calculations, the requested revision would only be appropriate if all labor-related costs associated with the "open" positions were fully eliminated by CA Adjustment C-17, for consideration in Docket No. 05-0069. The Consumer Advocate reserves the right to supplement this response with any additional calculations or adjustment revisions that might be quantified at a later date.

HECO/CA-IR-210 **<u>Ref: CA-T-2, page 44-45.</u>**
On CA-T-2, pages 44 and 45, Mr. Carver disagrees with treating the King Street Building lease as a capital lease for ratemaking purposes, although based on SFAS 13, the lease is a capital lease. With respect to generally accepted accounting principles, does the CA concur with the Company that the lease should be treated as a capital lease for financial statement purposes?

RESPONSE: Neither Mr. Carver nor the Consumer Advocate has contested the calculations on which HECO based its decision that the lease should be treated as a capital lease for financial statement purposes. Both Mr. Carver and the Consumer Advocate do contend that the capital lease treatment, for financial statement purposes, should <u>not</u> result in HECO being allowed to increase its overall revenue requirement or otherwise enjoy an added financial benefit at the expense of its ratepayers.

HECO/CA-IR-211 **Ref: CA-T-2, page 58, lines 9-22.**

a. In the transcript of oral arguments in Docket No. 03-0142, For Approval of a Residential Customer Energy Awareness ("RCEA") Pilot Program and Recovery of Program Costs, the CA states:

> "However, in closing, the Consumer Advocate, as I stated in the front, that the – there's no opposition to HECO's proposal to embark on a general advertising mass-media campaign in an effort to reduce evening peak energy usage. The Consumer Advocate is opposed specifically to the approval of an advertising campaign as a DSM pilot program wherein HECO will be allowed a dollar for dollar cost, recovery of program costs through the IRP DSM cost recovery surcharge." (Transcript, page 22, lines 6-14.)

RESPONSE: The cited testimony has been taken out of context. The quoted Consumer Advocate statement does not convey the intent, nor should the Company have assumed, that the Consumer Advocate would automatically support the cost recovery of the proposed RCEA DSM program costs or similar advertising costs in the instant rate proceeding. Rather, HECO has the burden of demonstrating that the proposed costs are reasonable and will be effective in achieving the claimed objective of reducing residential customer energy use during the daily peak period. HECO has made no such showing in the instant rate proceeding. Furthermore, the Company has arbitrarily increased the advertising budget without any support for such increase.

b. Was the CA opposed to the education and energy awareness advertising campaign because it was included in the RCEA DSM Program and/or may not have met the requirements of the IRP Framework. Please fully explain your response.

RESPONSE: The basis for the Consumer Advocate's position was clearly set forth in that statement of position. One of the reasons offered for the Consumer Advocate's opposition to Commission approval of the education and energy awareness advertising campaign was the fact that HECO had not demonstrated the cost effectiveness of the proposal as a DSM pilot program. (Consumer Advocate's statement of position filed in Docket No. 03-0142, section III.B.2). In order for the Consumer Advocate to support the inclusion of the costs HECO plans to incur to pursue this program in base rates, HECO must still demonstrate the cost effectiveness of the program. It is not simply a matter of increasing the advertising budget in the hope that the increased expenditures will produce certain expected results. HECO has the burden of demonstrating that the expenditures are a cost effective means of achieving the objectives, before the Company is allowed to pass such costs on to its ratepayers. This is a fundamental principle of utility regulation. Furthermore, HECO has not demonstrated that the proposed cost levels will be incurred on a normal, on-going basis during the period that the rates established in the instant proceeding will remain in effect. Such a demonstration is also necessary to support Commission inclusion of such costs in base rates.

c. Is it the CA's position that there is a benefit to a "general advertising mass-media campaign in an effort to reduced evening peak energy usage". If the answer is anything other than an unqualified "yes" please fully explain your response.

RESPONSE: No. The Consumer Advocate has not been provided evidence by the Company to support the contention that an assumed benefit from a general advertising mass-media campaign will produce the expected results. HECO has failed to demonstrate the cost effectiveness of the expenditures incurred for the advertising campaign. Furthermore, based on feedback from representatives of the Consumer Advocate's office who have seen the recent HECO commercials, there is no clear message that the purpose of the advertising is to reduce energy use during the daily evening peak, as HECO claims is the primary purpose of the advertising. Rather, the advertising appears to simply convey the message that one should conserve energy.

d. Please explain what mechanism should be used to recover the costs of "general advertising mass-media campaign in an effort to reduced evening peak energy usage".

RESPONSE: It is the position of the Consumer Advocate that HECO must demonstrate the cost effectiveness of the proposed advertising before the Commission allows cost recovery, through base rates, of any monies spent on the advertising. Ratepayers should not be held responsible for the cost of an aggressive advertising program that have not been shown to be cost effective nor necessary in the production and delivery of the energy.

HECO/CA-IR-212 **<u>Ref: CA-101, Schedule C-19.</u>**

Please explain why the Customer Service Reorganization Adjustment in Schedule C-19 has been applied to Administrative and General Expenses in CA-101, Schedule C, page 4 of 5.

RESPONSE: HECO has identified an inadvertent posting error that has no impact on overall revenue requirement. The line on which CA Adjustment C-19 should have been posted is immediately above the line for Administrative and General Expenses

HECO/CA-IR-213 **<u>Ref: CA-101, Schedule C-24.</u>**

Please explain why the CA's proposed elimination of the Green Program costs is made to Customer Accounts rather than Customer Service Expense in CA-101, Schedule C, page 4 of 5.

RESPONSE: HECO has identified an inadvertent posting error that has no impact on overall revenue requirement. The portion of the adjustment related to the Green Power Program should have been posted to Customer Service Expense

HECO/CA-IR-214 **<u>Ref: CA-T-2, page 60, lines 1-14.</u>**
In HELCO's rate case, Docket No. 99-0207, the CA proposed and HELCO accepted, that all IRP expenses be included in base rates. Has the CA changed its position since the HELCO rate case? If no, please explain the CA's current position. If yes, please explain the reason for the change.

RESPONSE: No. The Company misinterprets the Consumer Advocate's recommendation, which was subsequently adopted by the Commission in its Decision and Order No. 18365, section V.D, pages 19 through 21. The Consumer Advocate's position in the instant proceeding is consistent with the recommendation set forth and approved in Docket No. 99-0207. The Consumer Advocate recommended that a normalized level of incremental IRP General Planning costs be recovered through base rates, as opposed to the IRP surcharge. Also see the response to HECO/CA-IR-208(a) for additional information.

HECO/CA-IR-215 **Ref.: CA-T-2, page 78, line 15 to page 79, line 2.**

Is it the position of the CA that staff vacancies created by routine events such as retirements, terminations, transfers, etc., and new staff positions created to address new or different operations should be treated in the same manner? Please state the reasoning and basis for your response.

RESPONSE: The Consumer Advocate objects to the question as being vague and ambiguous. Without waiving this objection, the Consumer Advocate offers the following response:

As indicated in the cited testimony, employee headcounts do fluctuate from month-to-month for a variety of reasons, including: retirements, terminations, transfers, and hirings. This fluctuation in employee counts does not end just because the Company may have plans to fill a vacant position or hire additional employees to staff a new department. In both historic and forecast periods, it is uncommon for employee levels to be static, particularly during a period in which a company is hiring new employees to fill a significant number of vacant or new positions. One of the key points of the cited testimony is to address the need for consistency in establishing utility rates. In this context, open positions are open positions, regardless of whether the cause of a vacancy is due to employee turnover or the creation of a new position. So, in this context, employee vacancies should be treated in the same manner.

HECO/CA-IR-216 **<u>Exhibit CA-101, Schedule C-27.</u>**

On Schedule C-27, footnote c refers to CA Adjustment C-30. However, Exhibit CA-101, Schedule C contains no adjustment designated C-30. Rather, adjustment C-30 is designated "*reserved*." Please explain the reference in Schedule C-27, footnote c.

RESPONSE: Footnote (c) of CA Adjustment C-27 should have referenced CA Adjustment C-23, not CA Adjustment C-30. Subsequent to the preparation of CA Adjustment C-27 and the referenced footnote, the Consumer Advocate spreadsheet file "HECO-CA 101_Rev Req Model.xls" was reorganized and certain adjustments were renumbered. The reference to CA Adjustment C-30 is an inadvertent oversight. There is no revenue requirement impact of the incorrect reference

HECO/CA-IR-217 **<u>Ref: CA T-2.</u>**

a. Are there any analyses or computations that the witness, or someone acting on his behalf, performed that are not included in the witness' testimony? If so, please describe in detail all such analyses or computations and provide copies of all documents relating thereto.

RESPONSE: The Consumer Advocate objects to this question as being vague, overly broad, burdensome and not likely to lead to the discovery of admissible evidence. Without waiving this objection, the Consumer Advocate responds as follows:

As stated at CA-T-2, page 6, line 18: "Virtually all information relied upon by the Consumer Advocate in developing these adjustments was supplied by HECO in response to written discovery or contained in Company workpapers." Consumer Advocate witnesses rely primarily upon the prefiled testimony, exhibits and workpapers of HECO as well as the many voluminous documents and electronic files produced by HECO in response to Informal Requests – documents already in the possession of HECO. In many instances, Consumer Advocate witnesses review HECO-prepared workpapers and IR responses adding margin notations, tic-marks, side-calculations and may conduct other analyses that serve no purpose beyond verifying HECO's calculations, testing HECO's conclusions, supporting the preparation of IRs for submission to the Company and confirming that the amounts proposed by HECO are <u>not</u> in dispute.

The testimony and adjustments sponsored by Mr. Carver identify by footnote or reference each of the specific data sources relied upon. It is unreasonable and burdensome to impose a further obligation upon the Consumer Advocate or its witnesses to identify and "describe in detail" all such analyses or computations and provide copies of all documents when these efforts are not associated in any way with issues currently in dispute in this Docket. If HECO must review the tic marks and margin notations placed upon the voluminous files of IR responses and other electronic files used by Utilitech to evaluate the Company's filing in areas that did not result in any ratemaking adjustment, Utilitech will make the boxes of such files available in its offices in Lee's Summit, Missouri during normal business hours and upon reasonable advance notice for review and copying by HECO personnel.

b. To the extent not identified in response to specific HECO Information Requests, please identify all documents upon which the witness relied in formulating the opinions and conclusions contained in his testimony.

RESPONSE: The information and data sources relied upon for each ratemaking adjustment sponsored by Mr. Carver are identified within the testimony, specific adjustments (see Exhibit CA-101), or supporting workpapers previously provided by the Consumer Advocate.

c. Will the witness perform any additional work in this matter prior to the hearing? If so, please describe in detail what work the witness performs.

RESPONSE: Mr. Carver does expect to perform any necessary work required to prepare for hearings in this Docket. The specific nature and focus of that work cannot be determined at the present time, but is expected to include: reviewing DOD's direct filing and HECO's rebuttal filing; assisting in the preparation of cross-examination materials; attending hearings; and conducting other work requested by the Consumer Advocate.

HECO/CA-IR-218 **Ref: CA T-2, pages 56-61.**

a. Is it the CA's position that the mechanism used to recover integrated resource planning costs (for example, whether some or all of such costs should be included in base rates or in an IRP Cost Recovery Provision) is an issue in the Energy Efficiency Docket No. 05-0069? If the CA's response is anything other than an unqualified "no", then please provide the basis for response, including a cite to any applicable language in Decision and Order No. 21698 (March 16, 2005) establishing such Docket.

RESPONSE: See the response to HECO/CA-IR-205(b) and HECO/CA-IR-208(a).

b. Is the witness aware of the position taken by the CA in Docket No. 99-0207, HELCO's 2000 Test Year Rate Case, regarding the mechanism to recover integrated resource planning costs? Please explain the witness' understanding of the CA's position in Docket No. 99-0207, and reconcile (i.e., explain the reasons for any differences in) the CA's position in CA-T-2, and the CA's position in Docket No. 99-0207.

RESPONSE: Yes. See the responses to part (a) of this information request and HECO/CA-IR-214.

c. Does the CA agree that all of the integrated resource planning costs ("IRP planning costs") that the CA proposes to exclude from base rate revenue requirements represent incremental IRP planning costs? Please fully explain your response.

RESPONSE: Yes, CA Adjustment C-17 removes only incremental IRP labor and non-labor planning costs related to CIDLC.

HECO/CA-IR-219 **Ref: CA T-2, page 56, lines 11-17.**

In Docket No. 03-0166, HECO and the CA agreed to changes to the RDLC Program, which included "1. HECO will modify the program budget for the five-year program. HECO will not seek to recover the following RDLC Program operation and maintenance cots through the IRP Cost Recovery Provision: (1) Direct Labor (which is comprised of Administration, Tracking and Evaluation, and Database and Technical Support); (2) Advertising/Marketing (fixed and variable); (3) Training; and (4) Materials and Miscellaneous. Instead, the Parties agreed to allow HECO to seek recovery of these operation and maintenance costs in base rates in HECO's next rate case." (Docket No. 03-0166, Decision and Order No. 21415, issued October 14, 2004), page 1 2 (footnote 8 omitted).

In Docket No. 03-0415, HECO and the CA agreed to changes to the CIDLC Program, which included "1. HECO will modify the program budget for the five-year program. HECO will not seek to recover the following CIDLC Program operation and maintenance costs through the IRP Cost Recovery Provision: (1) Direct Labor (which is comprised of Administration, Annual Relay Service and Inspection, Tracking and Evaluation, and Clerical Support) and (2) Materials, Travel, and Miscellaneous. Instead, the Parties agreed to allow HECO to seek the recovery of these operation and maintenance costs in base rates in HECO's next rate case." (Docket No. 03-0415, Decision and Order No. 21421 issued October 19, 2004), page 11 (footnote 8 omitted).

a. Please explain the witness' understanding of the CA's position in Docket Nos. 03-0166 and 03-0415 concerning the recovery of RDLC and CIDLC DSM operation and maintenance costs in base rates and reconcile (i.e., explain the reasons for any differences in) the CA's position in CA-T-2 and the CA's position in Docket Nos. 03-0166 and 03-0415.

RESPONSE: The above language is consistent with the agreement reached between the Consumer Advocate and the Company. At this time, however, there is no certainty that the programs will be approved for continuation in the test year and beyond, nor is there any certainty as to how much of the program costs will be approved for cost recovery by the Commission. These matters will be addressed in the Energy Efficiency Docket that has been opened by the Commission. See response to HECO/CA-IR-205(b).

b. If HECO is not able to recover these operation and maintenance costs of the RDLC and CIDLC DSM programs in base rates (e.g., Direct Labor, Materials, Travel, and Miscellaneous), please explain the mechanism that the CA recommends HECO should use to recover such operation and maintenance costs. Please provide the basis for the CA's response.

RESPONSE: See the response to part (a) and HECO/CA-IR-205(b) above.

HECO/CA-IR-220 **Ref: CA T-2, page 57, lines 1-11.**

a. Is it the CA's position that HECO's proposed conservation and energy efficiency advertising messages (referenced in response to CA-IR-446 and CA-IR-533) should not be done at this time? If the answer is anything other than an unqualified "yes", please fully explain your response.

RESPONSE: It is the Consumer Advocate's position that it is well within the discretion of HECO's management to expend whatever level of corporate funds it chooses on the proposed conservation and energy efficiency advertising messages. It is also the Consumer Advocate's position that none of the actual or forecasted cost of such advertising should be included in determining base rates in the pending rate case.

b. If HECO is not able to recover the conservation and energy efficiency advertising messages in base rates, please explain the mechanism that the CA recommends HECO should use to recover such costs. Please provide the basis for the CA's response.

RESPONSE: In the event that HECO stands committed to the aggressive marketing effort, the Company should raise the matter for further consideration by the Commission in Docket No. 05-0069 – because the primary focus of the messages relate to DSM and customer awareness of energy options and conservation.

Mr. Herz, CA-T-3 is sponsoring the responses to the following information requests.

HECO/CA-IR-301 **Ref: CA-T-3, page 46, line 1.**

The table lists the energy payment to AES as $87,446,000, and cites the source for this number as CA-312, page 1. On CA-312, page 1, this amount is derived from the sum of $61,019,000 for fuel and $26,427,000 for O&M under the "CA DT Position" column. The $61,019,000 amount is derived from CA-WP-309, page 5.

In CA-WP-309, page 5, there is a column titled "AES" which shows the Consumer Advocate Fuel Cost ($) for purchased energy from AES. The column totals $61,019,316. Please provide the calculations used to derive each of the twelve numbers in that column.

RESPONSE: The sum of the energy dispatched each month from AES is converted to MBtu using the AES heat rate. The number of MBtus is multiplied by the oil price per MBtu. The cost is calculated as follows:

(sum of (0.0051019 $MBtu/MW^2$ times $PGAES^2$) plus (14.9713 MBtu/MW times PGAES) plus 258.748 MBtu) times $2.3033/MBtu.

PGAES is the hourly MW energy generated by AES.

HECO/CA-IR-302 **Ref: Computer production simulation model, CA-T-3, page 24, lines 14 to 20.**

Please provide all of the input files that were used for the production simulation run for the test year period in electronic format and hard copy.

RESPONSE: The input files that were used to model the HECO November 2004 filing and used in support of the CA's Direct Testimony are provided in electronic format and hard copy.

HECO/CA-IR-303 **<u>Ref: Computer production simulation model, CA-T-3, page 24, lines 14 to 20.</u>**

Please provide the output files (reports) that display the following:

a. An hourly output report that shows the hourly MW loading per generating unit.

RESPONSE: An electronic copy of the output report in Microsoft Access titled "CA Dispatch May Updates November Maintenance Schedule.mdb" is provided. The electronic file contains the hourly generating unit loading in MW, MBtu and Fuel Cost.

b. A monthly output report that shows the MWh generated by unit.

RESPONSE: A monthly summary that shows the MWh generated by unit was included in CA-WP-309, page 3.

HECO/CA-IR-304 **<u>Ref: Computer production simulation model, CA-T-3, page 24, lines 14 to 20.</u>**

Please provide the user manual for the program that was used to run the production simulation which should include a discussion of the following:

a. Economic dispatch.

RESPONSE: There is no formal user manual for the production simulation program. The program was developed internally by Sawvel and Associates, Inc. to duplicate HECO's Production Simulation Dispatch. However, the Source Code for the Production Simulation program is provided in hard copy in response to this information request. The topics in question are identified in the Source Code Program hard copy and are discussed below.

b. Economic dispatch.

RESPONSE: The Production Simulation program is an hourly chronological deterministic tool that requires hourly energy (MWh) inputs and dispatches generating resources in each hour to serve the net hourly system energy requirement. The program models fixed energy transactions and dispatchable energy resources.

Fixed transactions are modeled by indicating a fixed resource hourly energy output for each hour of the year. The hourly energy output is subtracted from the hourly system energy requirement to result in the net hourly system energy requirement to be served from dispatchable resources.

Dispatchable generating units are dispatched based on the lowest incremental fuel cost ($/MWh) during each hour of the year. Unit commitment parameters are also considered in this process to take into account spinning reserves, minimum hourly energy generating levels and minimum generator run times after a unit is committed.

c. Unit commitment.

RESPONSE: The Production Simulation program has the capability to commit generating units for a minimum number of hours and at minimum MWh per hour energy generation levels. The intent of the program is to model unit commitment in the same manner as the HECO production simulation model. Furthermore, if planned maintenance is scheduled for a generating unit, the maintenance schedule takes precedence over unit commitment.

d. Fixed transactions.

RESPONSE: The Production Simulation program models fixed transaction resources such as scheduled purchases and must take transactions. The hourly energy in megawatt hours is decreased by the fixed transaction and the results are dispatched among the HECO generating units and the purchased generating units, such as AES and Kalaeloa. See BUYPWR.DAT as provided in response to HECO/CA-IR-302 as an input data file to the program.

e. How EFOR are treated in the program.

RESPONSE: Generating unit Equivalent Forced Outage Rates (EFOR) are used by the Production Simulation program and are modeled by decreasing the generating unit hourly energy output in every hour that is dispatched. EFOR is read from the MACHINE8.DAT input file. See MACHINE8.DAT an input file provided in response to HECO/CA-IR-302.

f. How Spinning Reserve is treated in the program.

RESPONSE: Similar to HECO's Production Simulation program, Spinning Reserves in the Production Simulation program was set to 157 megawatts. The program will dispatch committed generation to exceed the net system hourly energy requirement by at least 157 megawatts in every hour of the year. See the Source Code Program document.

HECO/CA-IR-305 **<u>Ref: CA-305, page 2, column (h), line (1).</u>**

If the source for the $2.9053/barrel trucking cost for the LSFO for Honolulu Power Plant that appears on CA-305, page 2, column (h) on Line (1) is from HECO's May 5, 2005 Update letter, please provide the specific page number. If not, please provide the derivation of the $2.9053/barrel trucking cost.

RESPONSE: The source of the $2.9053/barrel trucking cost for the LSFO for the Honolulu Power Plant that appears on CA-305, page 2, column (h) on Line 1 is from HECO's response to CA-IR-137, revised, page 2, and is not from the May 5, 2005 Update letter indicated on Exhibit CA-305.

HECO/CA-IR-306 **Ref: CA-303, page 1, column (d), line 7b.**

a. Was Substation DG modeled as a fixed transaction or as a dispatchable resource?

RESPONSE: Substation DG was modeled as a fixed transaction.

b. Please explain how the Substation DG energy was derived.

RESPONSE: The Substation DG energy was based on information received from Craig Shigeta on June 5, 2005 regarding the DG installed capacity of 14.78 MW and 5 hours per weekday. HECO indicated that the Substation DG would be installed and operational on October 1, 2005. The DG capacity was modeled to operate during the weekdays of October (21 days) excluding holidays (Columbus Day) resulting in 20 days in the month of October consistent with the HECO May 2005 Update. Because HECO's May 2005 Update indicated the Company would not schedule DG in the months of November and December 2005, the Substation DG was modeled to not have any operation in the months of November and December.

c. Please provide a copy of the calculations in electronic format to show how the Substation DG energy was derived.

RESPONSE: The electronic calculation was provided in Exhibit CA-309, page 5 of 5, DG Column, October row.

HECO/CA-IR-307 **Ref: CA-314, page 2, line 2.**

a. Please provide the workpapers for "Composite Fuel Cost of Total Generation (HECO & CHP)" of 873.57 cents/mmbtu as shown on CA-314, page 2, line 2.

RESPONSE: The calculations for "Composite Fuel Cost of Total Generation (HECO & CHP)" of 873.57 cents/mmbtu are in Exhibit CA-314, page 1, line 13.

b. Did the CA consider the DG Energy Component in the "Composite Fuel Cost of Total Generation (HECO & CHP)"? If yes, please provide workpapers showing the DG Energy Component in its calculation of 873.57 cents/mmbtu. If no, please explain why the DG Energy Component should not be included.

RESPONSE: The Consumer Advocate did not include the DG Energy Component in the "Composite Fuel Cost of Total Generation (HECO & CHP)." The Consumer Advocate used HECO's ECAC calculations. HECO's ECAC calculations did not include CHP in the "Composite Fuel Cost of Total Generation (HECO & CHP). To be consistent with HECO's calculations, the Consumer Advocate treated DG in the same manner as HECO treated CHP and thus did not include DG in "Composite Fuel Cost of Total Generation (HECO & CHP)."

HECO/CA-IR-308 **Ref: CA-314, page 3, lines 1, 4, 7.**

a. The CA Reference on line 1 is "CA-304, Page 2/CA-303, Page 1". Please fully explain how 5.67159 cents/kwh is determined from the CA Reference.

RESPONSE: The fuel expense of $445,560,000 shown in Exhibit CA-304, Page 2 of 2, column (i) line 7 "Central Station Total" divided by 4,837,900 MWh shown in Exhibit CA-303, page 1, column (d) line 7a "Central Station" equals $0.0567159 per kWh.

b. The CA Reference on line 4 is "CA-304, Page 2/CA-303, Page 1". Please fully explain how 0.02552 cents/kwh is determined from the CA Reference.

RESPONSE: The Weighted Base DG Energy Cost is the DG Fuel expense of $201,000 shown in Exhibit CA-304, Page 2 of 2, column (i) line 8 "CHP-DG Diesel" divided by 4,837,900 MWh shown in CA-303, Page 1 of 1, column (d) line 7a "Central Station".

c. The CA Reference on line 7 is "CA-301, Page 1/CA-303, Page 1". Please fully explain how 8.88204 cents/kwh is determined from the CA Reference.

RESPONSE: The Consumer Advocate Reference on line 7 is CA-301, Page 1 of 2, column (c), line 4 divided by CA-303, Page 1, column (d), line 1. The number on line 7 should be 3.31018 cents/kWh as shown in Revised CA-314, page 3. The cell in Line 7 of CA-314, page 3 under the CA DT Position column incorrectly referred to CA-301, page 1 of 2, line 4, column (d) and refers to the correct cell in CA-301 in the Revised CA-314. We also have included Revised Exhibit CA-301, page 1 of 1 and CA-314, page 3 of 3 that were also affected by the incorrect cell reference.

HECO/CA-IR-309 **<u>Ref: CA-314, page 3, lines 4, 7 and CA-314, page 1, lines 26, 57.</u>**

a. Please explain the difference between the weighted base DG energy cost component of 0.02552 cents/kwh as shown on CA-314, page 3, line 4 and the weighted composite DG energy cost component of 0.00200 cents/kwh as shown on CA-314, page 1, line 26.

RESPONSE: The DG energy cost component of 0.02552 cents/kWh is the weighted DG fuel cost per energy sold. The DG energy cost component of 0.00200 cents/kWh is the DG weighted fuel cost per kWh generated.

b. Please explain the difference between the weighted base purchased energy cost component of 8.88204 cents/kwh as shown on CA-314, page 3, line 7 and the weighted composite purchase energy cost of 2.59852 cents/kwh as shown on CA-314, page 1, line 57.

RESPONSE: The weighted base purchased energy cost (revised) is 3.31018 cents/kWh of energy sold. The weighted composite purchase energy cost of 2.59852 cents/kWh is the weighted energy cost per kWh purchased.

Mr. Parcel, CA-T-4 is sponsoring the responses to the following information requests.

HECO/CA-IR-401 **Ref: CA-408.**
Please provide the currently authorized return on equity for the each of the eight electric utilities in your two samples of comparable electric utilities.

RESPONSE: To the best of Mr. Parcell's knowledge, the following list indicates the authorized returns on equity for the individual companies in the two samples of comparable electric utilities. When available, the annual dates of the respective decisions are also shown. It is apparent that the large majority of company-authorized returns on equity are well below the 11.5% requested by HECO in the present proceeding.

CH Energy	10.30%	2001
Great Plains Energy		
NSTAR	11.63%	
Otter Tail Power	12.00%	
Pinnacle West Capital	10.25%	2005
PNM Resources	10.25%	
SCANA	11.05%	
Wisconsin Energy	12.20%	
Avista	10.78%	
Cleco	12.25%	2004
Empire District Electric	11.00%	2005
IDACORP	10.25%	
Puget Energy	10.30%	2005
UIL Holdings	10.45%	2004
Vectren	11.03%	

Source: AUS Utility Reports, July, 2005

HECO/CA-IR-402 **Ref: CA-400.**

Please provide your return on equity recommendation and the return on equity authorized for each electric case in which you have testified in the last five years. Please also provide the prevailing yield on long-term Treasury bonds at the time of preparing these testimonies.

RESPONSE: Please see the attached list of public utility cases in which Mr. Parcell has testified over the past five years, as well as the authorized returns in each case. See Mr. Parcell's CA-401 for the yields on long-term Treasury bonds. The analysis for each company and each commission's results may differ depending on the specific information pertaining to each company—for example, the size of the utility, the regulatory environment under which the utility operates (for example, competitive or rate base regulation) and whether the utility operations are solely or primarily the provision of electric service.

HECO/CA-IR-403 **Ref: CA-T-4, page 13, lines 15-21.**

a. Is it Mr. Parcell's opinion that electric utility stocks have outperformed or underperformed the overall equity market in (1) the last five years, and (2) the last year. Please provide any supporting evidence.

RESPONSE: Mr. Parcell has not performed any studies designed to ascertain how utilities "perform" relative to the overall equity markets. Even if an attempt were made to perform such studies, a determination must be made as to how relative performance would be measured.

b. Is it Mr. Parcell's opinion that Hawaiian Electric Industries' common stock has outperformed or underperformed electric utility stocks (1) the last five years, and (2) in the last year? Please provide any supporting evidence.

RESPONSE: Please see the response to part a. above. Furthermore, as is indicated in Mr. Parcell's testimony, an impact on HEI's performance, however measured, would be impacted by the Company's non-utility operations.

HECO/CA-IR-404 **Ref: CA-T-4, page 47, lines 12-20.**

a. In light of his discussion contained on page 47 lines 12-20, does Mr. Parcell advocate a regulatory process which produces a market-to-book ratio of 1.00? If so, please reconcile this statement with the fact that the companies in his sample group are selling well above book value (Exhibit CA-409).

RESPONSE: No. Mr. Parcell is not recommending a regulatory process which produces a market-to-book ratio of 1.00. In fact, as he notes in his testimony, he believes his recommended return on equity will result in a market-to-book ratio well above 1.00.

b. Does Mr. Parcell believe that his cost of equity recommendation will maintain, increase, or decrease HECO's parent company's market-to-book ratio?

RESPONSE: Mr. Parcell's cost of equity recommendation will have no impact on HEI's market-to-book ratio. Rather, the consolidated entity's financial performance, relative to other companies, as well as the trends in overall equity markets, will determine its market-to-book ratio.

HECO/CA-IR-405 **<u>Ref: CA T-4, pages 3-4</u>.**

Does Mr. Parcell's recommended cost of common equity assume the maintenance of the company's existing capital structure or does it assume some other capital structure. If so, please state Mr. Parcell's recommended ROE under both the company's existing capital structure and his recommended capital structure.

RESPONSE: No specific assumptions of HECO's equity ratio are incorporated in Mr. Parcell's recommendation. However, the cost of capital recommendation uses the current capital structure and the implementation of rates using this capital structure implicitly assuming that the current capital structure will remain in effect.

HECO/CA-IR-406 **Ref: CA T-4, pages 17-18.**

Does Mr. Parcell believe that HECO's cost of common equity capital is dependent of HEI? If so, why? If not, why not?

RESPONSE: No. As is apparent from Mr. Parcell's direct testimony on pages 14-27, HECO's cost of equity is not independent of HEI. On the other hand, Mr. Parcell's cost of equity analyses are based on two groups of proxy companies, not HEI.

HECO/CA-IR-407 **Ref: CA T-4, page 21.**

Did Mr. Parcell examine how the regulatory climate in Hawaii is viewed by the investment community other than by Value Line, for example Regulatory Research Associates, Merrill Lynch, etc.? If so, what are those views? If not, why not?

RESPONSE: Mr. Parcell focused on the Value Line reports, since these are readily available. Mr. Parcell is not aware that any HECO witness cited any other entities in its testimony.

HECO/CA-IR-408 **Ref: CA T-4, page 14, lines 15-16.**

a. Does Mr. Parcell view HECO's purchased power contracts as debt equivalents? If so, please describe the impact of purchased power contracts on financial risk.

RESPONSE: Please see Mr. Parcell's CA-413, wherein he used HECO's purchased power contracts as debt equivalents in the same fashion as the Company does in its application.

b. Does Mr. Parcell believe that there is a relationship between bond rating and company size, all else remaining constant? If so, describe the relationship.

RESPONSE: There appears to be a general relationship between bond ratings and company size, although clearly not all large companies have higher bond ratings than smaller companies.

HECO/CA-IR-409 **Ref: CA-T-4.**

a. Has Mr. Parcell had discussions with representatives of the rating agencies?

RESPONSE: Mr. Parcell attends forums, etc. at which he has discussions with representatives of the rating agencies. However, his testimony in this and other proceedings is based on the actual published positions of the rating agencies, rather than any private conversations with representatives of the agencies. Mr. Parcell's analytical approach is proper since the purpose of cost of capital estimation for rate setting purposes is to use market data that reflects the information available to investors in general.

b. If the response to (a) is yes, please indicate when and with whom.

RESPONSE: As is indicated in the response to part (a) above, Mr. Parcell does not use any information obtained from personal conversations of rating agency personnel or any other persons in forming his recommendations as set forth in the direct testimony. The most recent occasion Mr. Parcell had to have discussions with representatives of rating agencies was in April of 2005, when he attended the 2005 Financial Forum of the Society of Utility and Regulatory Analysts in Washington, DC, where a panel of representatives from Moody's, Standard & Poor's and Fitch gave a ratings presentation. Mr. Parcell also appeared as a speaker at this forum.

c. Please provide a detailed description of what was discussed.

RESPONSE: Mr. Parcell does not recall any specific or detailed aspects of any personal conversations.

d. Were HECO/HEI discussed?

RESPONSE: Not that Mr. Parcell recalled.

e. What information was obtained that was relied upon in reaching conclusions in the testimony?

RESPONSE: No specific information was relied upon by Mr. Parcell in reaching conclusions in the present testimony.

HECO/CA-IR-410 **<u>Ref: CA-T-4.</u>**

a. Please provide all financial ratios calculated in preparing your testimony. Also provide all workpapers for the calculation.

RESPONSE: These have already been provided with the direct testmony filed on June 28, 2005.

b. If you did not reference some of the ratios in your testimony, please explain why you did not.

RESPONSE: Not applicable.

HECO/CA-IR-411 **<u>Ref: CA-T-4</u>.**
How has Mr. Parcell factored into his review HECO's current capital program?

RESPONSE: Mr. Parcell considered all financial information contained in Company testimony, as well as financial publications of the Company, in his testimony.

HECO/CA-IR-412 **Ref: CA-T-4.**

a. Within the last five years, has Mr. Parcell had discussions with representatives of the rating agencies regarding electric utilities?

RESPONSE: See the response to HECO/CA-IR-409 part (a).

b. If the response to (a) is yes, please indicate when and with whom.

RESPONSE: See the response to HECO/CA-IR-409 part (b).

c. Please provide a detailed description of what was discussed.

RESPONSE: See the response to HECO/CA-IR-409 part (c).

d. Please provide details of any discussion of HECO and/or HEI.

RESPONSE: See the response to HECO/CA-IR-409 part (d).

e. What information was obtained that was relied upon in reaching conclusions in the testimony?

RESPONSE: See the response to HECO/CA-IR-409 part (e).

HECO/CA-IR-413 **Ref: CA-T-4.**

a. Please provide all HECO and/or HEI financial ratios calculated at the time the testimony was prepared or for the purpose of preparing the testimony.

RESPONSE: All such ratios are included in Mr. Parcell's testimony and workpapers.

b. Please provide all workpapers and results of each ratio calculated, whether or not included in the testimony and exhibits.

RESPONSE: These have already been provided with the filing made on June 28, 2005.

c. If you did not reference some of the ratios in your testimony, please explain why you did not.

RESPONSE: N/A.

HECO/CA-IR-414 **Ref: CA-T-4.**
How has Mr. Parcell factored into his review HECO's current capital program?

RESPONSE: Mr. Parcell's review and analyses considered all publicly-available information on HECO's financial attributes, including its construction program. The types of information considered include the Company-sponsored testimony in this proceeding, financial reports prepared by the Company, and analyses of the Company by rating agencies and financial analysts. The purpose of such analyses is to view the Company is the same manner as would be expected to be done by investors.

Mr. Brosch, CA-T-5 is sponsoring the responses to the following information requests.

HECO/CA-IR-501 **Ref: CA-T-5, Page 5, Lines 14-15.**

a. Please specify all the "cost allocation methods" used by HECO that are "questionable", including the HECO testimony reference and exhibits.

RESPONSE: The Consumer Advocate has identified four cost allocation concerns that are specified within the bullet point listing on CA T-5, pages 6 and 7 and that are explained in detail at pages 9 through 21.

b. Please provide all workpapers used by the CA supporting its claim that the "cost allocation methods" identified by the CA in response to part a. above, are "questionable".

RESPONSE: The information relied upon by the Consumer Advocate is referenced throughout pages 9 through 21 of CA T-5. See also the excerpt from the FERC Rate Handbook provided in response to HECO/CA-IR-511, the response to HECO/CA-IR-502 and HECO's response to CA-IR-464, where the needed correction to loss rates used in the Company's study is referenced.

HECO/CA-IR-502 **Ref: CA-T-5, Page 10, Lines 14-18, Page 20, Lines 10-16.**

Please provide all workpapers including the electronic file used by the CA in evaluating each production o&m account and used by the CA to classify 48% of these costs as energy-related and 52% as demand-related.

RESPONSE: See Attachment HECO/CA-IR-502. Note that this modification to the Company's embedded cost of service study was not included in the Consumer Advocate's development of CA Exhibit 501 because a more detailed study of HECO Production O&M accounts was recommended prior to incorporating the recommended change to the embedded cost of service study. The Consumer Advocate recommends that HECO act upon this recommendation by conducting such a study in preparing for its next rate case filing.

HECO/CA-IR-503 **Ref: CA-T-5, Page 15, Lines 4-14.**

Please provide all workpapers in support of the CA's statement that the Minimum Size Method "double counts cost responsibility" as claimed in the referenced CA testimony.

RESPONSE: No workpapers were required to support this statement. It is intuitively obvious that the specific distribution facilities included within a Minimum Size system are capable of serving some amount of load. HECO's minimum installed pole size is 30 feet, its minimum sized transformer is 25 kVA and the minimum sized conductor is sized to serve up to 106 amps. However, when HECO's demand allocation factor is developed, no accounting is made for the amount of demand that can be served by facility costs that are separately allocated on a "customer" basis. This result is inequitable to rate classes with large numbers of customers that receive a heavy allocation of "customer" allocated distribution system costs and then a full allocation of "demand" allocated distribution system costs. The problem is noted in the NARUC Electric Utility Cost Allocation Manual that is quoted by Mr. Brosch, "When allocating distribution costs determined by the minimum-size method, some cost analysts will argue that some customer classes can receive a disproportionate share of demand costs. Their rationale is that customers are allocated a share of distribution costs classified as demand-related. Then those customers receive a second layer of demand costs that have been mislabeled customer costs because the minimum-size method was used to classify those costs."

HECO/CA-IR-504 **Ref: CA-T-5, Page 22.**

a. Did the CA use <u>only</u> the Company's embedded cost of service model to prepare the CA's cost-of-service study in this case?

RESPONSE: Yes.

b. If the answer to part a. above is yes, doesn't the CA have its own cost-of-service study program model?

RESPONSE: Mr. Brosch is not aware of other cost-of-service program models the Consumer Advocate may possess. Mr. Brosch has used a wide variety of other cost-of-service program models in other proceedings, including some that have been developed by commercial vendors or by utility company employees. Whenever possible, Mr. Brosch prefers to utilize the same cost allocation study model being used by the utility for several reasons:

- It is necessary for the Consumer Advocate or Commission staff to analyze and verify the utility model to correct any errors and truly understand the methods and algorithms being employed. Once this analysis and verification has been conducted, the analyst has invested sufficient time to enable modifications and corrections that may be required.
- Use of the utility model limits the time investment and risk of inadvertent errors associated with detailed data entry arising from use of an alternative modeling tool.

- The utility can simulate and replicate changes made to its own model more readily than if the Consumer Advocate used an unfamiliar, independent modeling tool.
- Any differences caused by methodological differences are often only reconcilable when the same model is employed. Thus, using the utility's modeling tools avoids problems with irreconcilable differences in results.
- The utility can more easily and rapidly understand and respond to cost allocation issues if they are quantified using the utility's own cost allocation model.

c. If the answer to part a. above is no, please provide the electronic copy of all other cost-of-service study models with all the formula and algorithm used by the CA to prepare its cost-of-service study in this case.

RESPONSE: Not Applicable.

HECO/CA-IR-505 **Ref: CA-T-5, Page 23, Lines 7-12.**

a. Please explain and elaborate what the CA means by the statement that the "cost-of-service results can change significantly from one test period to another, due to shifts in load conditions and expense levels."

RESPONSE: Cost of service results can be dramatically impacted by changes in specific expenses, particularly when such expenses are classified and allocated using a factor that differs from system average overall cost assignment ratios. For example, when significant new Demand Side Management program costs are directly assigned to a particular customer class for base rate recovery, the indicated class rate of return may decline due to such cost assignment. This problem exists in the HECO embedded cost study, as explained at CA-T-5, page 18. Load conditions can vary between test periods and result in shifts in cost responsibility, particularly when individually large customer loads are added or lost or when unusual weather conditions impact peak demand. This concern was not noted as applicable to HECO in this Docket, but such normal variability from one test year to another is often cited by regulators as a reason for use of embedded cost of service studies as a guide, rather than an absolute indicator of class cost responsibilities.

b. Please provide evidence including all supporting workpapers, in support of the CA's claim stated in part a. above.

RESPONSE: The quoted passage is based upon Mr. Brosch's experience, rather than any particular workpapers or analyses. With respect to the Class Rates of Return impact of DSM included in HECO revenue requirement, calculations performed by the Consumer Advocate to test the impact of DSM cost inclusion are contained in the electronic file Copy of HECO_TY_2005_COS_No DSM.xls provided as an attachment to this response. The Residential Service class return with DSM included, as shown at HECO-WP-2202, page 1 is 1.30% or only 32 percent of the "unity" return of 4.04%. This result improves to an indicated 4.01% Residential Class ROR that represents 59 percent of the revised "unity" return of 6.78% with no DSM. See Attachment HECO/CA-IR-505(b) for a summary of this result.

c. Please specify what "other factors must also be considered by the Commission" in "the direction rate changes should occur."

RESPONSE: The "other factors" to be considered are explained at pages 25 and 26 of CA T-5. HECO T-22 also listed and acknowledged the importance of "other factors" at page 17, "HECO considered the following factors in developing the proposed rates:

1. production of the Company's test-year 2005 revenue

requirements;

2. classes' cost of service;
3. revenue stability;
4. rate stability and rate continuity;
5. impact on customers;
6. customers choice;
7. provide fair and equitable rates;
8. simplicity, ease of understanding, and ease of implementation; and
9. encourage customer load management."

HECO/CA-IR-506 **Ref: CA-T-5, Page 27, Line 3.**

a. Please provide the rationale for the CA's proposal to assign equal percentage increases to all rate classes for Schedules R, J, H, PS, PP, and F, and no increases for Schedules G and PT.

RESPONSE: CA Exhibit 500 illustrates class rates of return for Schedules R, J, H, PS, PP and F that are below, but reasonably close to the system average rate of return, such that an equal percentage increase to such classes is complaint with cost of service guidance. Schedules G and PT, on the other hand, are earning returns far above the system average rate of return at present rates and should not be assigned any base rate increase responsibility under the Consumer Advocate's development of overall revenue requirement.

b. Please provide all analysis prepared by the CA to determine the impact such as the resulting class' rates of return, of its proposed allocation of increases referenced in part a. above.

RESPONSE: Class returns under CA-proposed revenue levels are summarized in Attachment HECO/CA-IR-506. These amounts are calculated in the linked cost of service model file previously provided by the Consumer Advocate to HECO.

Mr. Herz, CA-T-3 is sponsoring the response to the following information request.

HECO/CA-IR-507 **Ref: CA-T-5, Page 29, Lines 1-4; CA-T-3, Page 65, Lines 3-5; CA-T-1, Page 25 Lines 1-5.**

a. Is it the CA's proposal to increase the power factor base currently used in HECO's Power Factor Adjustment in Schedules J, PS, PP, and PT, from 85% to 95%? Please fully explain your response.

RESPONSE The Consumer Advocate proposes that the power factor base increase from a power factor of 85% to 95% and to no longer provide credits to customers for power factor. The Consumer Advocate further proposes that HECO implement a power factor adjustment that increases the customer charges if the power factor is less than 95% lagging. The power factor adjustment should be based on appropriate cost of service studies that allocate reactive power to each customer class.

b. If the answer to part a. above is yes, please provide all workpapers including all electronic files and spreadsheets used by the CA to determine its proposed 95% base.

RESPONSE The Consumer Advocate did not prepare workpapers to develop its power factor proposal. The information needed to prepare workpapers to estimate reactive power costs and subsequent power factor penalties, were requested by the Consumer Advocate in IR-576. However, HECO was unable to provide the cost information needed by the Consumer Advocate. In CA-IR-575 through CA-IR-580 the Consumer Advocate requested that HECO calculate HECO's reactive power costs in accordance with FERC staff methodology. The requested breakouts of the generators, turbines and exciters are not readily available as indicated in response to CA-IR-576 and hence we were not able to calculate the reactive power cost.

c. Is it the CA's proposal to terminate any credits provided in the Company's current power factor adjustment?

RESPONSE Yes.

d. If the answer to part c. above is yes, please provide the cost basis for the CA's proposal, and all supporting workpapers including all electronic programs and spreadsheets used to support the CA's proposal.

RESPONSE See the response to part b. (above).

e. Please provide all analysis prepared by the CA, including all workpapers and electronic spreadsheets, to determine the impact on customers as well as on the Company's costs of the CA's proposal on the power factor adjustment.

Response See the response to part b. (above).

<u>Mr. Brosch, CA-T-5 is sponsoring the responses to the following information requests.</u>

HECO/CA-IR-507 **<u>Ref: CA-T-5, Page 37, Lines 7-10.</u>**
Please provide the results and all workpapers including all electronic programs and models used for the CA's "cost-of-service evidence" mentioned in the referenced CA testimony.

RESPONSE: Please see the Attachment provided in response to HECO/CA-IR-508, submitted electronically.

HECO/CA-IR-508 **<u>Ref: CA-T-5, CA-500.</u>**
Please provide all the workpapers including the electronic programs and models showing the determination of each number presented in CA-500.

RESPONSE: Please see the Attachment provided in response to HECO/CA-IR-508, submitted electronically

HECO/CA-IR-509 **Ref: CA-T-5, CA-501.**
Please provide all the workpapers including the electronic programs and models showing the determination of each number presented in CA-501.

RESPONSE: Please see the Attachment provided in response to HECO/CA-IR-508, submitted electronically

HECO/CA-IR-510 **Ref: CA-T-5, page 10, lines 14-18.**

Please provide the Federal Energy Regulatory Commission ("FERC") references that describe and illustrate the guidelines for the "predominance method" that can be used to evaluate production O&M accounts as primarily demand-related or energy-related.

RESPONSE: Please see the Attachment provided in response to HECO/CA-IR-511.

HECO/CA-IR-511 **Ref: CA-T-5, page 22, lines 13-16, and CA-500 (spreadsheet).** Please provide a detailed derivation of the Customer Service allocation factors (C8) by rate schedule, shown on the "HAFDATA" tab of the spreadsheet. Provide all formulas and assumptions.

RESPONSE: Please see the Attachment provided in response to HECO/CA-IR-512.

HECO/CA-IR-512 **<u>Ref: CA-500 and Exhibit CA-101, Schedule C, Page 2.</u>**
Please provide a detailed allocation of the Operating Revenue Adjustment of $254,035,000 to Schedules PT, PP, and PS that result in the respective sales revenue amounts shown in Exhibit CA-500.

RESPONSE: Please see the Attachment provided in response to HECO/CA-IR-508, submitted electronically, where spreadsheet linkages into the Consumer Advocate's revenue requirement model can be observed. The sales revenue links are developed at sheet " TY Rev by Rate Class" and tie to the "C Posting" sheet of the Consumer Advocate's revenue requirement model at rows 361 to 412

HECO/CA-IR-513 **Ref: CA-T-5, Page 20, Lines 10-13.**
Please provide a hard copy and the electronic file for Exhibit CA-502.

RESPONSE: Please see the response to HECO/CA-IR-502. Note that this modification to the Company's embedded cost of service study was not included in the Consumer Advocate's development of CA Exhibit 501 because a more detailed study of HECO Production O&M accounts is recommended prior to incorporating the recommended change to the embedded cost of service study. The Consumer Advocate recommends that HECO act upon this recommendation by conducting such a study in preparing for its next rate case filing. The T-5 reference to Exhibit CA-502 will be deleted, as this Exhibit does not exist.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Division of Consumer Advocacy's **RESPONSES TO HAWAIAN ELECTRIC COMPANY, INC.'S INFORMATION REQUESTS** was duly served upon the following parties, by personal service, hand delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR § 6-61-21(d).

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DATED: Honolulu, Hawaii, July 18, 2005.

Ann Matsumoto
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