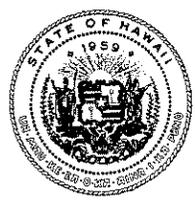


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LINDA LINGLE
GOVERNOR
JAMES R. AIONA, JR.
LT. GOVERNOR



MARK E. RECKTENWALD
DIRECTOR
JOHN E. COLE
EXECUTIVE DIRECTOR

STATE OF HAWAII
DIVISION OF CONSUMER ADVOCACY
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
335 MERCHANT STREET, ROOM 326
P.O. Box 541
HONOLULU, HAWAII 96809
Phone Number: 586-2800
Fax Number: 586-2780
www.hawaii.gov/dcca/dca

September 13, 2005

FILED
2005 SEP 13 P 3:41
PUBLIC UTILITIES
COMMISSION

The Honorable Chairman and Members of
the Hawaii Public Utilities Commission
Kekuanaoa Building
465 South King Street, 1st Floor
Honolulu, Hawaii 96813

Dear Commissioners:

RE: Docket No. 04-0113 – HECO 2005 Test Year Rate Case

As requested, attached is the explanation requested by the Commission briefly explaining the two issues which could not be settled and instead discussed in the post hearing briefs submitted by the parties, together with a brief explanation as to why the issues could not be settled.

Sincerely yours,

Cheryl S. Kikuta
Utilities Administrator

CSK:tt
Enclosure

cc: William A. Bonnet
Dean K. Matsuura
Thomas W. Williams, Jr., Esq.
Dr. Kay Davoodi
Randall Y.K. Young

1. **Informational Advertising**

In rebuttal testimony, HECO proposed to increase the test year Informational

~~Advertising from \$1,000,000 to \$1,750,000. This would result in a total test year~~
~~Advertising of \$1,750,000.~~

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

expenditure level for rate setting purposes. Furthermore, the Consumer Advocate continued to have the same concerns with the effectiveness of the proposed expenditure for advertising as those expressed with the proposed pilot RCEA program. As a result, the Consumer Advocate was not willing to compromise on this matter, as it contended that HECO had not met its burden to demonstrate that the proposed \$750,000 of additional advertising costs were reasonable and effective in achieving the desired goal of educating consumers of the need to conserve energy during peak and emergency situations.

Given the information that is already contained in the record, the Consumer Advocate did not believe that it was necessary to hear this matter in the evidentiary hearing and instead could sufficiently present its arguments in opposition to the inclusion of the additional \$750,000 of advertising costs in the post hearing briefs.

The effect of not litigating the matter at the evidentiary hearing is to minimize valuable hearing time and reduce costs to the Consumer Advocate by not having its witness expend additional time preparing and litigating the issue at the hearing.

2. **Interest Synchronization for Purposes of Calculating the Test year Income Tax Expense.**

This issue is not one that pertains to a difference between HECO and the Consumer Advocate. As discussed in CA-T-2, page 97, Mr. Steven Carver stated that he has sponsored testimony supporting the use and application of the widely adopted interest synchronization method in other jurisdictions, including Hawaii. However, because this Commission does not embrace the methodology, Mr. Carver deferred to past Hawaii regulatory practice and did not propose a ratemaking adjustment in the instant proceeding. If, however, this Commission were to reconsider its long-standing practice and ultimately adopt the interest synchronization approach in the current proceeding, Mr. Carver did provide a quantification of the mechanics and use of interest synchronization in determining test year revenue requirements.

Because the Consumer Advocate did not raise this issue in its Direct Testimony, the Consumer Advocate is unable to state why this matter could not be settled. This is a matter for DOD and HECO to address for the Commissions' benefit.