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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, and for Approval and/or Modification of Demand-Side and Load Management Programs and Recovery of Program Costs and DSM Utility Incentives.	)	DOCKET NO. 04-0113

FILED

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PUBLIC UTILITIES COMMISSION

DEPARTMENT OF DEFENSE'S THIRD

SUBMISSION OF INFORMATION REQUESTS

TO HAWAIIAN ELECTRIC COMPANY, INC.

AND

CERTIFICATE OF SERVICE

RANDALL Y.K. YOUNG
Associate Counsel (Code 09C)
Naval Facilities Engineering
Command, Pacific
258 Makalapa Drive, Suite 100
Pearl Harbor, HI 96860-3134
Telephone (808) 474-5514

ATTORNEY FOR
DEPARTMENT OF DEFENSE

BEFORE THE PUBLIC UTILITIES COMMISSION

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DEPARTMENT OF DEFENSE'S THIRD
SUBMISSION OF INFORMATION REQUESTS
TO HAWAIIAN ELECTRIC COMPANY, INC.

COMES NOW, DEPARTMENT OF DEFENSE ("Applicant") by and through its undersigned attorney, and hereby submits its Third Submission of Information Requests to Hawaiian Electric Company, Inc. ("HECO").

DATED: Honolulu, Hawaii, March 22 2005.

RANDALL Y.K. YOUNG
Associate Counsel (Code 09C)
Naval Facilities Engineering Command, Pacific
258 Makalapa Drive, Suite 100
Pearl Harbor, HI 96860-3134
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DEPARTMENT OF DEFENSE

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DEPARTMENT OF DEFENSE'S THIRD

SUBMISSION OF INFORMATION REQUESTS

TO HAWAIIAN ELECTRIC COMPANY, INC.

INSTRUCTIONS

In order to expedite and facilitate Department of Defense's review and analysis in the above matter, the following is requested:

1. For each response, HECO should identify the person who is responsible for preparing the response as well as the witness who will be responsible for sponsoring the response should there be an evidentiary hearing;
2. Unless otherwise specifically requested, for applicable schedules or workpapers, HECO should provide hard copies of each schedule or workpaper together with one copy of each such schedule or workpaper on electronic media in a mutually agreeable format (e.g., Excel and Quattro Pro, to name two examples); and
3. When an information request makes reference to specific documentation used by HECO to support its response, it is not intended that the response be limited to just the specific document referenced in the request. The response should include any non-privileged memoranda, internal or external studies, assumptions, HECO instructions, or any other relevant authoritative source which HECO used.
4. Should HECO claim that any information is not discoverable for any reason:
    a. State all claimed privileges and objections to disclosure;
    b. State all facts and reasons supporting each claimed privilege and objection;

c. State under what conditions HECO is willing to permit disclosure to Department of Defense (e.g., protective agreement, review at business offices, etc.); and

d. If HECO claims that a written document or electronic file is not discoverable, besides complying with subparagraphs 4(a-c), identify each document or electronic file, or portions thereof, that HECO claims are privileged or will not be disclosed, including the title or subject matter, the date, the author(s) and the addressee(s).

5. Please provide each response in electronic format (if available) as well as paper. Please provide two copies of each response, with one copy going directly via overnight delivery to Department of Defense's consultant at the following address:

Hill Associates
Stephen G. Hill
4000 Benedict Road
Hurricane, West Virginia 25526
Telephone: 304-562-3645
Email: Sghill@compuserve.com

and the other copy going directly via overnight delivery to:

Dr. Kay Davoodi
Utilities Rates and Studies Office
NAVFAC Washington
1314 Harwood Street, S.E.
Washington Navy Yard, DC 20374-5018

DEPARTMENT OF DEFENSE'S THIRD SUBMISSION OF INFORMATION

REQUESTS TO HAWAIIAN ELECTRIC COMPANY, INC.

DOCKET NO. 04-0113

The following information requests are directed to HECO.

GENERAL QUESTIONS

DOD/HECO-IR-3-1 Please provide the per books capital structure of Hawaiian Electric Industries, Inc. and Hawaii Electric Company at December 31, 2003 and March 31, and June 30, September 30, and December 31, 2004. For the purposes of this data request, please provide the information as follows:

a) Long-term Debt (including that maturing within one year);
b) Short-term Debt;
c) Other Debt (specify);
d) Preferred or Preference Stock;
e) Common Stock;
f) Additional Paid-in Capital;
g) Retained Earnings; and
h) Total Common Equity (please identify any common equity attributable to unregulated operations, if any).

Also, please provide published balance sheet support for each of the above-requested capital structures.

DOD/HECO-IR-3-2 For the same five time periods referenced in the preceding interrogatory, please provide the following information for Hawaiian Electric Industries, Inc. and Hawaii Electric Company:

a) Embedded cost rates for long-term debt, short-term debt, other debt and preferred or preference stock;
b) Computation of embedded cost rates of long-term debt;
c) Computation of embedded cost rates of short-term debt; and
d) Computation of embedded cost rates of preferred or preference stock.

Note: Schedules should include date of issue, maturity date, dollar amount, coupon rate, net proceeds, annual interest paid and balance of principal, where applicable.

DOD/HECO-IR-3-3 Please provide the 2004 S.E.C. Form 10-K as soon as it is available and any 10-Qs and 8-Ks issued by Hawaiian Electric Industries, Inc. since January 1, 2004.

DOD/HECO-IR-3-4 Please provide Hawaiian Electric Industries' most recent Annual Report to Shareholders (as well as any statistical supplements available to investors). Also, if Hawaiian Electric Company provides a separate Annual Report, please provide that document as well.

DOD/HECO-IR-3-5 Please provide a copy of the most recent bond rating agency (Standard & Poor's, Moody's, Fitch) report for Hawaiian Electric Industries, Inc. and separately, if available, for Hawaiian Electric Company. [Note: Report provided should be most recent complete multi-page in-depth report, not a one or two-page update.]

DOD/HECO-IR-3-6 a) Please provide the monthly short-term debt balances for Hawaiian Electric Industries, Inc. and Hawaii Electric Company for each month from January 2002 through the most recent month available. Please explain how the monthly short-term debt balance is calculated (e.g., month-ending balance, average daily balance), and provide a sample calculation.
b) Please provide, for each month, the monthly cost-rate of that short-term debt for Hawaiian Electric Industries and separately for Hawaiian Electric Company, and a sample calculation showing how that monthly cost rate is derived.
c) Please provide a narrative description of Hawaiian Electric Industries' short-term debt financing arrangements, as well as inter-company borrowing arrangements between Hawaiian Electric Industries subsidiaries.

DOD/HECO-IR-3-7 Please provide an income statement, balance sheet and cash flow statement for Hawaiian Electric Company at the end of each fiscal year over the past ten years.

DOD/HECO-IR-3-8 Please provide a description of Hawaiian Electric Company's ten largest industrial and commercial customers (name of customer can be withheld), and indicate what percentage of the Company's total 2002 and 2003 kWh amount and revenues each represents. Also, please provide copies of any inter-company reports analyzing the potential of any of the listed companies to self-generate, and outlining how the Company would respond.

DOD/HECO-IR-3-9 Please provide a copy of the Company's (HECO's) most recent five-year financial forecast (or most similar document).

DOD/HECO-IR-3-10 Please provide a complete, detailed copy of Hawaiian Electric Industries' most recent bond rating agency presentation (i.e., not a slide-show summary, but the volume that discusses the Company's operations, generation, purchased power contracts, financial projections and service territory economics in detail.)

DOD/HECO-IR-3-11 Are there any debt issues that appear on the balance sheet of Hawaiian Electric Company that support the Company's investment in non-utility property, subsidiary companies or other investments? If so, please identify the type and amount of those debt issues; if not, please explain why not.

DOD/HECO-IR-3-12 Please provide a copy of HECO's FERC Form 1 for 2004, as soon as it ecomes available.

QUESTIONS FOR ROGER A. MORIN, PhD.

DOD/HECO-IR-3-13 a) Please provide a complete copy of one electric utility cost of capital testimony (Direct, Rebuttal and Rejoinder, if applicable) filed by Dr. Morin in 2000 or 2001.
b) Please provide a complete copy of one electric utility cost of capital testimony (Direct, Rebuttal and Rejoinder, if applicable) filed by Dr. Morin in the 1995-1997 period.

DOD/HECO-IR-3-14 [Morin Direct, p. 4, ll. 19-22] Please provide a narrative description of Dr. Morin's understanding of the "Company's current energy cost adjustment clause," and how elimination of that adjustment clause would impact the Company's risk compared to other electric utilities that do not have such an adjustment clause.

DOD/HECO-IR-3-15 [Morin Direct, p. 10, l. 2]
a) Please define the phrase "attract capital on reasonable terms," that is, what is the dividing line between reasonable and unreasonable terms?
b) Please cite to the portion of Hope, Bluefield, Memphis Light, Permian or Duquesne that mentions or defines "reasonable terms."

DOD/HECO-IR-3-16 [Morin Direct, p. 12]
a) Does Dr. Morin believe the three cost of equity estimation methodologies on which he relies in this proceeding should be given equal weight in assessing the cost of equity for HECO? If so, why; if not, why not?
b) Has Dr. Morin consistently given the three methods (DCF, CAPM, and Risk Premium) equal weight in his testimony over the past 20 years? If not, please explain why not.
c) In his textbook, does Dr. Morin devote more chapters to the DCF, CAPM or Risk Premium? If one methodology garners more attention than the other two in Dr. Morin's textbook, please explain why.

DOD/HECO-IR-3-17 [Morin Direct, p. 16, citing Brealey and Meyers]
a) Do Brealey and Meyers recommend using long-term Treasury Bonds as the risk-free rate in the CAPM?
b) If so, please provide a copy of the cover page and portion of their textbook in which they make that recommendation.
c) If not, please explain why Dr. Morin relies on Brealey and Meyers for authority in his Testimony in this proceeding.

DOD/HECO-IR-3-18 [Morin Direct, p. 16, citing Phillips]
a) Does Dr. Phillips also comment on the reliability of the CAPM and Risk Premium methods?
b) If so, please provide those comments as well as Dr. Phillips comments on the DCF.

c) If so, please explain why Dr. Morin elected to include only Phillips comments regarding the DCF, and eliminate the other comments of a "leading expert in regulation."

DOD/HECO-IR-3-19 [Morin Direct, p. 17, ll. 20, 21]
a) Isn't it true that "several fundamental and structural changes have transformed the energy utility industry" since the CAPM was developed?
b) Please explain why Dr. Morin elected to single out the DCF in that regard.

DOD/HECO-IR-3-20 [Morin Direct, p. 20]
a) Please provide a complete copy of one cost of capital testimony in which 1) Dr. Morin employs a CAPM analysis, 2) bond yields were projected to decline from then-current levels, and 3) Dr. Morin used the projected (lower) bond yield in his CAPM analysis.
b) Please provide one complete copy of a cost of capital testimony in which Dr. Morin did not undertake a CAPM analysis.

DOD/HECO-IR-3-21 [Morin Direct, p. 20, ll. 6]
a) Please explain why Dr. Morin elected to use 30-year bond yields when the US Government no longer issues that type of security.
b) Are the Ibbotson historical return data based on 20-year Treasury bonds or 30-year bonds? Please provide support for your response.

DOD/HECO-IR-3-22 [Morin Direct, p. 20, ll. 20-24]
a) Does Dr. Morin agree that long-term Treasury bonds are usually priced to produce a yield higher than short-term Treasury securities?
b) Please explain why long-term Treasury bonds have higher yields than shorter-term Treasury securities.
c) Are risk and return directly or inversely related?
d) Please provide the evidence on which Dr. Morin bases the statement that "a substantial fraction of bond market participants....hold bonds until they mature."

DOD/HECO-IR-3-23 [Morin Direct, p. 22, 23]
a) Is Dr. Morin's risk-free rate based on a 30-year zero coupon yield rather than a constant maturity yield? If so, why; if not, why not?
b) Is the yield of a zero coupon bond normally higher or lower than a constant maturity bond of the same duration? Please explain why or why not.

DOD/HECO-IR-3-24 [Morin Direct, p. 26, ll. 13-14]
a) Since Dr. Morin uses current and projected T-Bond yields as the risk-free rate in his CAPM, please explain why he did not use current and projected T-Bond yields to calculate a market risk premium.
b) If he had used current and projected T-Bond yields to calculate market risk premiums, would his CAPM results have been higher or lower? Please provide support for your response.

DOD/HECO-IR-3-25 [Morin Direct, p. 26, f. 6] Please provide a complete copy of the article cited.

DOD/HECO-IR-3-26 [Morin Direct, p. 27] Are the risk premiums cited on page 27 based on market index returns or on utility stock returns? Please cite to evidence from the Harris and Marston article to support your response.

DOD/HECO-IR-3-27 [Morin Direct, p. 28, l. 6]
a) Please list the research papers cited by Dr. Morin that use unadjusted, or "raw", betas and list the papers which use betas adjusted in the manner used by Value Line. Please provide complete copies of the studies that rely on adjusted betas.
b) One of the sources cited in Chapter 13 of Dr. Morin's text is Dr. Morin's rebuttal testimony in a March 1989 US West Communications (Mountain Bell) proceeding before the Arizona Corporation Commission. Please provide a complete copy of that testimony.

DOD/HECO-IR-3-28 [Morin Direct, HECO-2001, pp. 1-4]
a) Please list the companies that have bond ratings below investment grade.
b) If the companies included in HECO-2001 that have bond ratings below investment grade were excluded, would the resulting average beta be higher or lower? Please provide support for your response.

DOD/HECO-IR-3-29 [Morin Direct, pp. 29, 20] Please provide an electronic copy (with formulas included) of HECO-2002 and HECO-2003 on a diskette in Microsoft Excel format

DOD/HECO-IR-3-30 [Morin Direct, p. 32] Please provide an electronic copy of the spreadsheet (with formulas intact) used to create the chart on page 32.

DOD/HECO-IR-3-31 [Morin Direct, p. 37, ll. 13-16] Please provide support from current investor advisory services (or any other source) that predict electric utilities will continue to lower dividend payout over the next several years.

DOD/HECO-IR-3-32 [Morin Direct, p. 44, ll. 10,11] Please list the reasons why Dr. Morin believes gas distributors provide a "conservative proxy" for the Company's electric utility operations.

DOD/HECO-IR-3-33 [Morin Direct, p. 45] When a bond is sold for a price greater than face value and the difference between the selling price and face value is greater than the issuance costs associated with that bond issuance, is the embedded cost of debt lower or higher than the coupon rate? Why?

DOD/HECO-IR-3-34 [Morin Direct, p. 47, ll. 13] What is the annual rate impact on HECO's customers of a 30 basis point increase in the return on common equity? Please provide supporting calculations.

DOD/HECO-IR-3-35 [Morin Direct, p. 60, l. 5] Please provide a complete copy of the article cited.

DOD/HECO-IR-3-36 [Morin Direct, p. 62, l. 15]
a) Is the electric industry average debt ratio of 52% cited by Dr. Morin adjusted for purchased power debt-equivalents?
b) Dr. Morin makes his financial risk comparisons based on HECO's 2003 year-end capitalization. How does the Company's 2003 year-end capital structure compare to the capital structure it requests in this proceeding?

DOD/HECO-IR-3-37 [Morin Direct, Appendix A, HECO-2011]

a) Please provide a complete copy of the 2000 study referenced on page 5.
b) Please provide a complete copy of the May 2002 study referenced on page 6.
c) Please provide a complete copy of the spreadsheet from which the graph on page 7 was created.
d) Were either of the studies referenced published in any scholarly journal, or peer reviewed?
e) Please explain why the tenth portfolio was not included in the graph on page 7. How would the results differ if it had been?

DOD/HECO-IR-3-38 Please provide a complete copy of Dr. Morin's workpapers and articles cited in his Testimony not otherwise requested in the above interrogatories.

QUESTIONS FOR WITNESS RICHARD A. VON GNECHTEN

DOD/HECO-IR-3-39 [Gnechten Direct, p. 3, ll. 10-15] Please list the capital structure, embedded cost rates and cost of equity requested by the Company in Docket Nos., 7766, 7700, and 6998.

DOD/HECO-IR-3-40 [Gnechten Direct, p. 6, ll. 6, 7] In Mr. Gnechten's experience, has HECO ever been unable to access the debt market? If so, please provide any available evidence that such an event occurred.

DOD/HECO-IR-3-41 [Gnechten Direct, pp. 8, 9] Are HECO's construction plans for additional generation and transmission infrastructure extraordinary, when compared to industry averages? Please provide support for your response.

DOD/HECO-IR-3-42 [Gnechten Direct, p. 10, ll. 9-12]
a) Has the Hawaii Public Utilities Commission ("Commission") provided regulatory support in the past for HECO's CHP investments?
b) Does the Company have reason to believe that the Commission's position on CHP or DSM programs in the future will be different that it has been in the past? If so, please provide evidence to support the Company's concerns for the future.

DOD/HECO-IR-3-43 [Gnechten Direct, p. 11] Is it Mr. Gnechten's belief that the Commission is likely to disallow RE investments that have been mandated by the State Legislature? If so, please provide any available evidence that would lead to such a belief.

DOD/HECO-IR-3-44 [Gnechten Direct, p. 12, ll. 11, 12] Please explain how the ECAC "substantially reduces the Company's risk with regard to fuel oil prices." Please also explain how purchased power energy costs are recovered under the ECAC.

DOD/HECO-IR-3-45 [Gnechten Direct, p. 12, ll. 11-19] If the Company is made whole for purchased power costs under the ECAC, and the ECAC is continued by the Commission, please explain how the Company is at risk for unexpected changes in purchase power costs other than through the dissolution of the ECAC.

DOD/HECO-IR-3-46 [Gnechten Direct, p. 13] Please provide any studies undertaken by or for the Company regarding the probability that the US military bases in Hawaii will be shut down.

DOD/HECO-IR-3-47 [Gnechten Direct, p. 13, ll. 6-12] Please cite to any instance in which the Commission has disallowed the cost of pollution control equipment.

DOD/HECO-IR-3-48 [Gnechten Direct, p. 12, ll. 21, 22] Is it also true for depreciation expense, taxes and corporate overhead that those expenses must be paid "before shareholders receive any compensation for the use of their funds?? If not, please explain why not.

DOD/HECO-IR-3-49 [Gnechten Direct, p. 14, ll. 4-6] What GAAP principles have changed that "may impact the financial statement presentation" of purchased power contracts? Please provide support for your response.

DOD/HECO-IR-3-50 [Gnechten Direct, p. 15, ll. 13, 14] Please explain how "consideration of a competitive bidding requirement" could "significantly impact HECO's financial performance." Provide actual examples from Company experience.

DOD/HECO-IR-3-51 [Gnechten Direct, p. 18, ll. 12-20]
a) Please provide evidence from the Company's records or those of any other electric utility that purchased power agreements similar to those utilized by HECO have been considered to be a "lease" and included as debt capital on the balance sheet of the firm.
b) If the regulators already consider PPA's when setting the allowed return and regulatory capital structure (i.e., they consider PPA's to be additional debt), please explain why recording the PPA's as debt on the balance sheet would increase financial risk.

DOD/HECO-IR-3-52 [Gnechten Direct, pp. 19, 20]
a) Who was the primary beneficiary of the Trusts? Why?
b) By "deconsolidated" does witness Gnechten mean that the QUIPS were removed from the balance sheet of HECO? If "yes," did that lower the debt on HECO's balance sheet; if "no," please explain why HECO's balance sheet did not change.
c) Please explain how PPA's could be considered to be a "variable interest entity."

DOD/HECO-IR-3-53 [Gnechten Direct, p. 21, l. 14] Is interest expense related to the Kalaeloa PPA included in the Company's income tax calculation? If so, please provide support for your response. If not, why not?

DOD/HECO-IR-3-54 [Gnechten Direct, p. 22, ll. 9-19]
a) Please provide the analysis referenced, including all assumptions regarding the effective cost of the Kalaeloa PPA-related debt capital, how the amount of that debt was calculated, and what HECO's "target" debt ratio is.
b) If the bond rating agencies already impute debt related to the PPA's, please explain why any "re-balancing" would be necessary in order to retain the same financial strength rating.

DOD/HECO-IR-3-55 [Gnechten Direct, p. 25, HECO-2116]
a) Provide S&P's definition of "funds from operations," and "total debt."
b) Please provide all of the calculations and assumptions used to produce the financial guidelines for "no rate increase" and "with rate increase" cases. Please provide these data in spreadsheet format with all formulas and supporting schedules available and unlocked. If any adjustment's have been made to per books numbers, please detail and describe any such adjustments.

CERTIFICATE OF SERVICE

I hereby certify that one copy of the foregoing THIRD SUBMISSION OF 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 sec. 6-61-21(d).

William A. Bonnet
Vice President, Government and Community Affairs
Hawaiian Electric Company, Inc.
P.O. Box 2750
Honolulu, Hawaii 96840

Patsy H. Nanbu
Director, Regulatory Affairs
Hawaiian Electric Company, Inc.
P.O. Box 2750
Honolulu, Hawaii 96840

Thomas W. Williams, Jr., Esq.
Peter Y. Kikuta, Esq.
Goodsill Anderson Quinn & Stifel
1800 Alii Place
1099 Alakea Street
Honolulu, Hawaii 96813

Department of Commerce and Consumer Affairs — 6 Copies
State of Hawaii
Division of Consumer Advocacy
335 Merchant Street, Room 326
Honolulu, Hawaii 96813

DATED: Honolulu, Hawaii, March 22, 2005

RANDALL Y.K. YOUNG
Associate Counsel
Naval Facilities Engineering Command, Pacific