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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

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

TESTIMONY OF
RALPH C. SMITH, CPA

ON BEHALF OF
THE DEPARTMENT OF DEFENSE

2005 JUL -6 P 3:59
PUBLIC UTILITIES
COMMISSION
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1

2 **I. INTRODUCTION**

3 Q. Please state your name and business address.

4 A. Ralph C. Smith, 15728 Farmington Road, Livonia, Michigan 48154.

5

6 Q. What is your occupation?

7 A. I am a certified public accountant and a senior regulatory utility consultant with
8 the firm Larkin & Associates, PLLC, certified public accountants and regulatory
9 consultants.

10

11 Q. What is your educational background and professional experience?

12 A. These are presented as Exhibit DOD-100. This exhibit also summarizes some
13 of my regulatory experience and qualifications.

14

15 Q. On whose behalf are you appearing?

16 A. My firm is under contract with the Navy Utility Rate and Studies Office
17 (URASO) to perform utility revenue requirement studies. The Navy represents
18 the Department of Defense (DOD) in Hawaii.

19

20 Q. Please describe the tasks you performed related to your testimony in this case.

21 A. We reviewed and analyzed data and performed other procedures as necessary
22 (1) to obtain an understanding of the Hawaiian Electric Company Inc.'s
23 ("HECO" or "Company") rate filing package as it relates to the operating
24 income, rate base, and overall revenue requirement in this case and (2) to

1 formulate an opinion concerning the reasonableness of amounts included
2 within the Company's application for rate increase.

3

4 These procedures included reviewing the Company's testimony, exhibits and
5 workpapers, issuing information requests, and analyzing HECO's responses to
6 them.

7

8 Q. Have you prepared exhibits to present in support of your testimony?

9 A. Yes. I have prepared Exhibits DOD-101 through DOD-126.

10

11 Q. Were these exhibits prepared by you or under your supervision?

12 A. Yes, and they are correct to the best of my knowledge and belief.

13

14 Q. What issues will you be addressing in your testimony?

15 A. My direct testimony discusses the development of DOD's recommended
16 adjustments to HECO's rate base, net operating income, and revenue
17 requirement.

18

19 Q. Has HECO indicated that it will be updating and/or revising its rate filing?

20 A. Yes. HECO has supplied partial updates in a letter and attachments dated
21 May 5, 2005 entitled "HECO 2005 Test Year Rate Case - Updates." HECO
22 subsequently filed another round of partial updates on June 15, 2005, in a
23 letter and attachment.

24

1 Q. What amount of increased revenues is HECO seeking in this case?

2 A. I am not sure. HECO's original filing had requested that the Commission
3 approve rates and charges designed to produce an increase in total operating
4 revenues over its present rates by \$98.614 million. See HECO T-23, page 3.
5 However, that filing was made before the Commission issued Order No. 21698,
6 which separated HECO's requests for approval and modification of Demand
7 Side Management (DSM) programs from this docket, and before numerous
8 changes and updates to HECO's original filing were identified in response to
9 discovery.

10 Several key components needed to determine what revenue requirement
11 HECO is seeking in this case, such as the amount of test year revenue at
12 present rates, the amount of test year operating expenses, and the amount of
13 test year rate base, remain unknown and/or the dollar value undetermined in
14 HECO's "updates" and responses to information requests.

15

16 Q. Please explain how HECO's proposed amount of test year revenue at present
17 rates is undetermined.

18 A. DOD-IR-11-1 attempted to determine the impact of HECO's 2005 sales
19 forecast updates on revenue, fuel expenses and other expenses that vary
20 directly with sales. Specifically, DOD-IR-11-1(a) asked HECO to: "Please
21 provide the amount of increased and decreased revenues by rate that is
22 associated with HECO's update of its test year 2005 sales forecast that was
23 shown in HECO's 5/4/05 'Listing and Description of Updates' Attachment I.
24 Include supporting calculations." HECO's response did not provide the

1 requested information, but indicated that HECO would provide finalized and
2 updated electric sales revenues and supporting calculations when the final
3 sales and fuel expenses are adopted. HECO responded "...contract fuel and
4 purchased energy prices will be calculated after the production simulation
5 model is run to develop the updated generation unit fuel consumption
6 forecast". HECO also indicated that its final sales estimates and fuel expenses
7 may be adjusted subsequent to the presentation of CA's and DOD's
8 testimonies on these items. HECO provided a similar answer in response to
9 DOD-IR-9-16. Thus, while we know that HECO's originally filed amount of test
10 year revenues at current rates is no longer accurate¹, we do not have HECO's
11 "updated" calculation of test year revenues at current rates.

12
13 Q. Please explain how HECO's proposed test year operating expenses are
14 undetermined.

15 A. In response to DOD-IR-11-1, HECO did not provide the requested impact of its
16 2005 sales forecast updates on fuel expenses or other expenses that vary
17 directly with sales.

18
19 Q. Please explain how HECO's proposed amount of test year rate base is
20 undetermined.

21 A. HECO's response to DOD-IR-10-4 has confirmed or identified several
22 components of rate base for which its updates have been quantified; however,

¹ HECO's 5/5/2005 "update" at Attachment 1, pages 2 and 5, for example, shows an increase in test year sales of 13.2 GWH.

1 that response indicates that HECO's proposed rate base amounts for several
2 items, including fuel inventory, working cash, accumulated deferred income
3 taxes and unamortized ITC remain undetermined at this time, but will
4 eventually be calculated when HECO presents its rebuttal. Thus, while we
5 know that HECO is no longer proposing its test year 2005 average rate base of
6 \$1,091,677,000 shown on HECO-2301 and mentioned at HECO T-23, page 4,
7 and we know the impact of some of HECO's proposed updates, which are
8 listed on the response to DOD-IR-10-4, we do not know what amount of 2005
9 rate base HECO is requesting.

10

11 Q. What starting point did you utilize in determining HECO's 2005 rate base and
12 net operating income?

13 A. I used HECO's originally filed rate base and net operating income as my
14 starting point and have reflected my recommendations as adjustments to
15 HECO's original filing.

16

17 Q. How have you dealt with HECO's updates in your testimony?

18 A. Where the reasons for HECO's updates were clear, where the impacts were
19 clearly quantified and/or confirmed in HECO's responses to DOD IRs, and
20 where I agreed with HECO's updates, I reflected the Company's revised
21 amounts in my adjustments. I address HECO's updates in subsequent
22 sections of this testimony, where the corresponding issues are addressed.

23

1 **II. REVENUE REQUIREMENT/SUMMARY SCHEDULES**

2 Q. What revenue requirement impact is produced by DOD's recommended
3 adjustments?

4 A. DOD-101 summarizes and presents the estimated impact on revenue
5 requirements resulting from DOD's recommended adjustments to operating
6 income and rate base that have been quantified as of the date of this filing. It
7 also reflects the weighted cost of capital recommended by DOD witness
8 Stephen Hill. Based on DOD's recommended adjustments, HECO has a
9 revenue deficiency of no more than \$19.3 million.

10

11 Q. Please explain DOD-101, page 1.

12 A. Column A reproduces in summary form, HECO's originally filed request for a
13 revenue increase of \$98.614 million from information presented on HECO-
14 2301 and underlying workpapers. Column C shows the DOD's recommended
15 adjustment to each line item of the revenue requirement formula. Column B
16 shows the DOD's adjusted results. In columns A and B, adjusted rate base on
17 line 1 is multiplied by the recommended rate of return (on line 2) to determine
18 the required amount of net operating income (line 3). The required net
19 operating income (line 3) is compared with the adjusted net operating income
20 (line 4) to determine the income deficiency (line 5). The operating income
21 deficiency (line 5) is then multiplied by the gross revenue conversion factor
22 (line 6) to determine the revenue deficiency (line 7).

23

24 Q. Please explain DOD-101, page 2.

1 A. DOD-101, page 2, starts with HECO's filed revenue requirement increase of
2 \$98.614 million from HECO-2301 and shows the estimated impact of each
3 DOD adjustment, culminating in DOD's calculated recommended revenue
4 deficiency of \$19.3 million. For ease of reference, these results are also
5 presented in summarized format in the following table:

Summary of Differences Between DOD and HECO (\$000)

Description	Reference	Revenue Requirement Amount
Revenue Requirement-per HECO Filing (HECO-2301)	DOD-101	\$ 98,614
Rate of Return Difference on HECO rate base	DOD-101,p2	\$ (27,730)
Rate Base Adjustments		
Net Plant in Service Update	DOD-107	\$ (1,067)
Other Rate Base Updates	DOD-108	\$ 730
Property Held for Future Use	DOD-109	\$ (72)
Remove Net Pension Asset	DOD-110	\$ (6,978)
Unamortized HRS System Development Costs	DOD-111	\$ (51)
Cash Working Capital	DOD-112	\$ (933)
Fuel Inventory Placeholder	DOD-113	\$ 2,075
Change in Working Cash at Proposed Rates	DOD-103	\$ 2,570
Net Operating Income Adjustments		
Other Operating Revenue	DOD-115	\$ (38)
Remove DSM Costs	DOD-116	\$ (33,921)
Standard Labor Rates and Test Year Overtime	DOD-117	\$ (290)
Average Test Year Employees	DOD-118	\$ (3,669)
Fuel Related Expense	DOD-119	\$ (739)
Production Operations and Maintenance Expense	DOD-120	\$ (2,241)
Customer Service Expense - Reorganization	DOD-121	\$ 556
Depreciation and Amortization Expense	DOD-122	\$ (1,457)
Administrative and General Expense	DOD-123	\$ 496
Other Taxes SUTA	DOD-124	\$ (221)
Income Taxes - Interest Synchronization	DOD-125	\$ (849)
Electric Sales Revenue & Fuel Update Placeholder	DOD-126	\$ (5,322)
Reconciled Revenue Requirement		\$ 19,463
Unreconciled Difference		\$ (153)
Recommended Revenue Requirement	DOD-101,p1	\$ 19,310

6

7

8 Q. What is presented on DOD-102?

9 A. This presents the calculation of the gross revenue conversion factor (GRCF). I
10 am recommending a GRCF of 1.798645. The GRCF is used to convert net

1 operating income amounts into revenue requirement amounts, and is used on
2 DOD-101, page 1, line 6, for this purpose.

3

4 Q. Please explain DOD-103.

5 A. DOD-103 summarizes the adjusted rate base. HECO's original filed amounts
6 from HECO-WP-2301 are shown in Column A. Column B summarizes the
7 DOD adjustments to each rate base component, and column C shows the
8 adjusted results.

9

10 Q. Please explain DOD-104.

11 A. DOD-104 summarizes the adjusted net operating income. HECO's original
12 filed amounts are shown in Column A. Column B summarizes the DOD
13 adjustments to each operating income component, and column C shows the
14 adjusted results.

15

16 Q. Please explain DOD-105.

17 A. DOD-105 summarizes HECO's originally filed proposed capital structure and
18 weighted cost of capital in Part I and DOD's recommended capital structure
19 and weighted cost of capital in Part II. DOD's cost of capital recommendations
20 are being sponsored by Stephen G. Hill. I calculated the "Pre-Tax Rates"
21 shown in DOD-105, column D. I used such rates for purposes of reconciling
22 the DOD and HECO revenue requirements on DOD-101, page 2.

23

1 **III. RATE BASE ADJUSTMENTS**

2 Q. Have you prepared an exhibit that summarizes DOD's adjustments to rate
3 base?

4 A. Yes. These adjustments are shown on DOD-106. The recommended
5 adjustments to rate base are discussed in the same order as they appear on
6 DOD-106.

7 ***A. Net Plant in Service Update***

8 Q. What amount of net plant in service did HECO request?

9 A. HECO's filing, at HECO-1902, reflected average 2005 test year net plant in
10 service of \$1,264,154,000. On HECO-1902, the Company determined net
11 plant in service by subtracting accumulated depreciation and its regulatory
12 liability for removal costs from the original cost of plant in service. HECO used
13 an average of estimated balances at December 31, 2004 and 2005.

14

15 Q. Please explain the Net Plant in Service update shown on DOD-107.

16 A. The amount of net plant in service presented in HECO-1902 has been
17 reduced by \$7.694 million to reflect the various updates that have been
18 quantified in HECO's responses to CA-IR-96, DOD-IR-9-3 and DOD-IR-10-4.

19

20 Q. Does the updated net plant in service amount reflect the removal of the
21 combined heat and power (CHP) rate base cost that HECO had included in its
22 original filing?

23 A. Yes. HECO mentioned in its May 5, 2005 update letter, Attachment 1A, page
24 1, that the costs it had projected for CHP for the 2005 test year would be

1 removed. On July 1, in response to an informal follow-up inquiry, HECO
2 confirmed that it had removed CHP in deriving its updated amount of
3 \$1,256,460,000.
4

5 ***B. Other Rate Base Updates***

6 Q. Please explain the adjustments shown on DOD-108.

7 A. DOD-108 shows the adjustments for other rate base components, primarily
8 based on HECO's response to DOD-IR-10-4. Updates for these rate base
9 components are quantified in the adjustment shown on DOD-108:

- 10 • Materials and Supplies;
- 11 • Net SFAS 109 Regulatory Asset;
- 12 • Prepaid Pension Asset;
- 13 • Unamortized CIAC;
- 14 • Customer Advances;
- 15 • Customer Deposits;
- 16 • Accumulated Deferred Income Taxes;
- 17 • Unamortized Gain on Sales; and
- 18 • OPEB Liability.

19

20 Q. Do you agree with HECO's proposed inclusion in rate base of an amount for
21 Prepaid Pension Asset?

22 A. No. I will discuss my position on Prepaid Pension Asset subsequently when I
23 explain the adjustment I propose on DOD-110.

1 Q. Please explain how you derived the updated amount shown on DOD-108 for
2 Accumulated Deferred Income Taxes.

3 A. The updated amount for Accumulated Deferred Income Taxes is based on the
4 difference between the estimated December 31, 2004 amount used in
5 HECO's filing and the actual December 31, 2004 amount identified in the
6 responses to DOD-IR-4-4 and DOD-IR-10-4.

7

8 Q. Did you ask HECO to confirm the December 31, 2005 accumulated deferred
9 income tax amount?

10 A. Yes. DOD-IR-10-4 asked HECO to confirm the December 31, 2005 amount
11 shown in HECO's response to DOD-IR-4-4. However, HECO failed to confirm
12 the updated December 31, 2005 projection and failed to provide an updated
13 amount for average 2005. Consequently, the update shown on DOD-108 for
14 Accumulated Deferred Income Taxes only reflects the difference between
15 HECO's projection and actual balance at December 31, 2004.

16

17 Q. Did you also ask HECO to confirm and/or provide updated amounts for fuel
18 inventory and Unamortized ITC?

19 A. Yes. DOD-IR-10-4 requested such information. However, HECO did not
20 confirm or provide updated amounts for either item in its response.
21 Consequently, the adjustment on DOD-108 does not reflect an update for
22 either fuel inventory or Unamortized ITC. After reviewing the Consumer
23 Advocate's testimony and HECO's recent responses to discovery, I was able
24 to identify a "placeholder" amount for updated fuel inventory, and have

1 reflected that in a subsequent adjustment on DOD-113.

2

3 Q. What is the net impact on rate base of the updates shown on DOD-108?

4 A. The net effect of the updates shown on DOD-108 is to increase rate base by
5 \$5.261 million.

6

7 ***C. Property Held for Future Use***

8 Q. Please explain the adjustment shown on DOD-109.

9 A. This adjustment reduces rate base by \$518,000 to remove HECO's
10 investment in the Kalaeloa-Barbers Point Harbor pipeline that was installed in
11 1991 because it is outside of the ten-year use requirement established by the
12 Commission in Decision and Order No. 11699 (dated June 20, 1992) and
13 because HECO has no defined plan for use or commercial operation for the
14 property.

15 In D&O 11699, at pages 114-115, the Commission stated that:

16 "More than ample time has expired since the acquisition of the
17 properties for HECO to place them in service; and there is nothing to
18 indicate that HECO's new projected service dates for these sites are
19 any more reliable than HECO's old projections.

20 "The commission is mindful of the fact that this order may compel
21 HECO to dispose of the sites and that HECO may later incur a greater
22 cost to reacquire other sites. However, the 10-year criterion is meant to
23 balance the risk of future higher acquisition cost or nonavailability of
24 property against the burden that ratepayers will need to bear by the

1 inclusion of the property in PHFU for an extended period of time.”

2

3 In response to DOD-IR-4-8, HECO acknowledges D&O 11699 and the
4 10-year criterion. HECO's response to CA-IR-206 indicated that HECO has
5 “no updated studies addressing the probable date for the project nor has
6 HECO identified any future date for placing the pipeline into service.”
7 Consequently, this project does not meet the Commission's established
8 criterion for rate base inclusion and should therefore be removed.

9

10 ***D. Pension Asset***

11 Q. Please explain the adjustment on DOD-110.

12 A. This adjustment reduces rate base by \$50.309 million for the removal of
13 HECO's updated pension asset of \$78.791 million less related accumulated
14 deferred income taxes of \$28.482 million.

15

16 Q. Has HECO demonstrated that investors funded the \$78.791 million?

17 A. No. HECO has not demonstrated that investors have funded the pension
18 asset. HECO refers to the results of applying Statement of Financial
19 Accounting Standards No. 87 (FAS 87) as “net periodic pension cost” or
20 “NPPC.” HECO T-19, at page 11, presents HECO's “theory” that the pension
21 asset has been funded by investors:

22 “In theory, ratepayers provide the funds based on the NPPC and
23 investors provide the funds contributed to the pension fund. The
24 prepaid pension asset is the net of the NPPC and the funds contributed

1 to the pension fund. Since the test year estimates forecast that the
2 NPPC and fund contributions will result in a net asset, investors are
3 providing the net amount.”

4 HECO’s “theory” goes on to cite the result in HELCO’s 2000 test year rate
5 case, Decision and Order No. 18365 (dated February 8, 2001) in Docket No.
6 99-0207 as support.

7

8 Q. Was the DOD a participant in HELCO’s 2000 test year rate case?

9 A. To the best of my knowledge, DOD was not a participant in HELCO’s 2000
10 test year rate case. Whether HECO’s pension asset is or is not included in
11 rate base should be based upon the facts and evidence concerning HECO in
12 the current rate case.

13

14 Q. How much pension cost was included in HECO’s last rate case?

15 A. HECO’s last rate case was based on a 1995 test year. According to HECO’s
16 response to CA-IR-355, HECO’s rebuttal testimony in that proceeding
17 included pension cost of \$10.6 million. Thus, for the 10-year period 1996
18 through 2005, and assuming no increased collections related to increases in
19 sales volumes during this period, as shown on DOD-110, page 2, column F,
20 HECO would have collected approximately \$106 million from ratepayers for
21 pension cost.

22

23 Q. Do you agree with HECO’s “theory” that ratepayers provide the funds based
24 on the NPPC?

1 A. No. The evidence also contradicts this part of HECO's "theory". HECO's
2 explanation in HECO T-19, at page 11, assumes that "ratepayers provide the
3 funds based on the NPPC." While in a rate case the amount to be provided
4 annually by ratepayers for pensions as part of a total revenue requirement
5 might be based upon the NPPC in the test year, in between rate cases, the
6 annual NPPC can fluctuate significantly and substantial decreases in pension
7 cost between rate cases tend to inure to shareholders, not ratepayers. As
8 shown on DOD-110, page 2, column B, line 21, HECO's FAS 87 accruals for
9 the period 1996 through 2005 accumulate to negative net periodic pension
10 costs of \$30,384,572. Since HECO did not re-establish base rates through a
11 rate case during this period, the logical conclusion is that this approximately
12 \$30.4 million of negative pension cost was not provided to ratepayers, i.e.,
13 ratepayers were not given "credit" for this negative pension cost and it was not
14 refunded by HECO to ratepayers, but rather the large net negative pension
15 cost for this period increased net income to the benefit of HECO's investors.
16 Such a significant mismatch between allowed expenses and actual expenses
17 is contrary to the theoretical basis forwarded by HECO.

18

19 Q What does your analysis show, since the last rate case, regarding the total
20 level of ratepayer contributions toward pension expense versus HECO's
21 contributions?

22 A. As shown on DOD-110, page 2, my analysis shows that ratepayers have
23 "provided" at least \$136 million (represented by the difference between what
24 ratepayers paid and what HECO recorded as NPPC) to HECO for Pension

1 expense since the last rate case, while HECO has only deposited
2 \$43,634,955 into the Pension Trust for the same period.

3

4 Q. Do you agree with HECO's "theory" underlying its claim that investors have
5 funded the pension asset?

6 A. No. HECO's theory is fatally flawed and unreliable as support for rate base
7 inclusion of a pension asset. Given the results since the last rate case, it
8 would be extremely inequitable to HECO's ratepayers to allow inclusion of a
9 \$78.8 million pension asset in rate base in the current rate case.

10

11 ***E. Unamortized HRS System Development Costs***

12 Q. Please explain the adjustment shown on DOD-111.

13 A. This adjustment removes \$369,000 from rate base for HECO's Human
14 Resources Suite (HRS) software system. In response to CA-IR-661, HECO
15 indicated that the in-service date for Phase I of the HRS project had been
16 delayed into 2006 and that the HRS development costs should be removed
17 from the test year. In response to DOD-IR-9-2(k), HECO confirmed that the
18 \$369,000 should be removed.

19

20 Q. Did HECO reflect in rate base any Accumulated Deferred Income Tax related
21 to this item?

22 A. No. HECO's response to DOD-IR-8-4(h) states that:

23 "HECO did not calculate any Accumulated Deferred Income Tax
24 associated with the deferred system development costs in HECO-1906,

1 however, as indicated in (g), rate base will be revised to exclude the
2 system development costs and no deferred income tax will be included
3 in the Accumulated Deferred Income Tax calculation."

4 Thus, there is no related adjustment to Accumulated Deferred Income Tax
5 associated with the removal of the \$369,000 system development cost from
6 rate base.

7

8 ***F. Cash Working Capital***

9 Q. Please explain your development of cash working capital on DOD-112.

10 A. This uses the same format for determining cash working capital that was used
11 on HECO-1907 and CA-101, Schedule B-9. I agree with and have reflected
12 each of the lag day revisions described in CA T-1 (CA witness Michael
13 Brosch's direct testimony) at pages 106-112; Exhibit CA-101, Schedule B-9;
14 and CA-WP-101-B9. Specifically, these lag day revisions have been reflected
15 in columns A and B of DOD-112:

- 16 • Revise revenue lag to 37 days to recognize revenue collection
17 timing that has been experienced in recent years;
- 18 • Revise fuel expense lag to 16 days to reflect payment terms in the
19 Company's new fuel oil supply contracts, per response to CA-IR-
20 524;
- 21 • Revise O&M Labor lag to 11 days to recognize the revised state
22 payroll tax withholding discussed in CA-IR-210, item 9; and
- 23 • Revise O&M Non-labor lag to 31 days to remove distortion caused

1 by HECO's application of an assumed "zero" lag day value for
2 accrued pension and Other Post Employment Benefit (OPEB)
3 expense.

4

5 Q. How did you derive the annual expense amounts shown in DOD-112, Column
6 D?

7 A. The derivation of the adjusted annual expense amounts in DOD-112, Column
8 D is shown on lines 13-21 of the exhibit. DOD-112, column I, begins with the
9 adjusted expense amounts used by the Company on HECO-1907. Columns J
10 through N show the impact of DOD adjustments and the adjusted results at
11 present and proposed rates for each category of expenses that is used in the
12 working cash calculation.

13

14 Q. What are the net results of your cash working capital recommendations?

15 A. As shown on DOD-112, line 9, columns F and H, respectively, the results of
16 my cash working capital calculations are an allowance of approximately \$5.1
17 million at present rates and \$2.6 million at proposed rates.

18

19 ***G. Fuel Inventory Placeholder***

20 Q. Please explain the fuel inventory placeholder shown on DOD-113.

21 A. As noted above, HECO did not provide its updated fuel inventory amount for
22 rate base in response to DOD requests such as DOD-IR-9-4 and DOD-IR-10-
23 4, but indicated that it would be provided in HECO's rebuttal after a production
24 simulation run is complete. The amount in HECO's filing does not reflect

1 recent fuel prices or the change in HECO's sales forecast for 2005.

2 Consequently, as a placeholder, I have made an adjustment to reflect the
3 CA's estimated fuel inventory, which does incorporate consideration of the
4 change in HECO's sales forecast for 2005 and more current fuel prices. The
5 amount of fuel inventory in rate base is increased by \$14.959 million.

6

7 Q. Did you also calculate an alternative placeholder amount for the Fuel
8 Inventory update on DOD-113?

9 A. Yes. Utilizing information that was provided by HECO in response to
10 information requests and the fuel prices provided in its May 5, 2005 update, I
11 calculated an alternative placeholder amount of \$15.77 million. This
12 calculation is shown on lines 4-10 of DOD-113 and reflects HECO's updated
13 quantity for diesel oil from DOD-IR-9-4 and DOD-IR-9-5. However, I used the
14 \$14.959 million because it appears to reflect consideration of the change in
15 HECO's sales forecast.

16

17 Q. Please explain what you mean by a "placeholder" amount for Fuel Inventory.

18 A. Because HECO did not provide its updated fuel inventory, based on the
19 calculations described above, it appears that HECO's filing understates the
20 Fuel Inventory amount in rate base by approximately \$15 million.

21 Consequently, in the face of such a significant change, I believe that rate base
22 would be more accurately stated if an adjustment were reflected, even if such
23 an adjustment was based on estimations.

1 **IV. NET OPERATING INCOME ADJUSTMENTS**

2 Q. Have you prepared an exhibit which summarizes DOD's adjustments to net
3 operating income?

4 A. Yes. These adjustments are shown on DOD-114. The recommended
5 adjustments to rate base are discussed in the same order as they appear on
6 DOD-114.

7
8 Q. Do you also show the impact of each adjustment on income tax expense on
9 DOD-114?

10 A. Yes. The impact of each adjustment on income tax expense is shown on
11 DOD-114, line 20. Income taxes are computed using the combined state and
12 federal income tax rate of 38.91% shown on DOD-102 and HECO-WP-2301,
13 pages 10 and 11.

14
15 **A. Other Operating Revenue**

16 Q. Please explain your adjustment for other operating revenue.

17 A. This adjustment is shown on DOD-115 and updates other operating revenue
18 for gains on sales of property, primarily for the results of sales of lolani Court
19 Plaza per HECO's response to CA-IR-372. The revised amortization for lolani
20 Court Plaza exceeds the amount reflected in HECO's filing by \$34,000. Other
21 net changes identified by HECO in its response to DOD-IR-9-2 bring the total
22 adjustment to \$35,000.

23

1 **B. Remove DSM Costs**

2 Q. Please explain the adjustment on DOD-116.

3 A. The Commission's Order No 21698 (March 16, 2005) removed HECO's
4 request for DSM program costs from this rate case (Docket No. 04-0113) and
5 will address such costs in a separate Energy Efficiency proceeding (Docket
6 No. 05-0069).

7 According to HECO, this order results in \$29.419 million of incremental
8 DSM program costs being removed. HECO's response to DOD-IR-9-2(g)
9 states that: "Customer Service expense should be reduced by \$29,419,365 to
10 remove DSM expenses from HECO's test year." This \$29,419,365 amount
11 was identified by HECO in its May 5, 2005 "update" on Attachment 4, page 1.

12 In order to fully remove the 2005 DSM cost from rates, the \$833,814
13 labeled as HECO's "Revised 2005 Test Year Estimate" and "Revised DSM
14 Expense in Base Rates" on pages 1 and 2 of the Company's May 5, 2005
15 "update" Attachment 4, respectively, should also be removed. Additionally,
16 the \$618,000 of "Incremental Integrated Resource Planning Costs
17 (normalized)" from HECO-1027 and HECO-1029 should also be removed.
18 The total adjustment to remove DSM costs is \$30.871 million, as shown on
19 DOD-116.

20

21 Q. Please discuss HECO's request for base rate inclusion of additional DSM
22 advertising expense.

23 A. HECO's response to DOD-IR-9-2, page 9 of 13, identifies as an "update" an
24 additional \$200,000 of advertising expense in Account 910 for direct load

1 control programs. HECO's response also cites its responses to CA-IR-446,
2 pages 2-4, and CA-IR-533, pages 1-4, which were provided on June 9, 2005.

3 HECO's May 5, 2005 "update" at Attachment 4, had indicated \$150,000
4 in advertising expense, consisting of \$50,000 RDLC advertising per its 2004
5 "M&E Report" filed on November 30, 2004, plus an additional \$100,000
6 described as: "Adjustment for RDLC advertising: Additional marketing
7 expenses necessary necessary (sic) to achieve Year 1 peak impacts."

8 DSM advertising expense, including these additional "updated"
9 advertising costs, should be removed from the current case. HECO's DSM
10 costs, including these DSM-related advertising expenses, should be
11 addressed in Docket No. 05-0069 which was established by the Commission
12 on March 15, 2005 to evaluate HECO's proposed DSM programs.

13

14 **C. Standard Labor Rates and Test Year Overtime**

15 Q. Please explain the adjustment shown on DOD-117.

16 A. This adjustment reduces payroll expense by \$245,638 and payroll tax
17 expense by \$18,791 to correct for the estimated excess overtime pay included
18 in 2005 test year expense resulting from HECO's use of 2003 payroll
19 information as the base for its development of standard labor rates.

20 As noted on page 4 of HECO's May 5, 2005 update, the problem with
21 HECO's use of 2003 payroll information to develop standard labor rates used
22 for the test year, and the level of overtime dollars and hours used to determine
23 those standard labor rates in light of HECO's position that additions to staffing
24 would be filled in place of incurring prior overtime levels was first raised by the

1 Consumer Advocate's consultant, Mr. Carver, in CA-IR-76 and his discussions
2 with HECO.

3 Salient facts concerning this issue were confirmed by HECO in
4 response to DOD-IR-9-18. The 2003 productive labor dollars HECO used to
5 develop its test year 2005 labor cost estimates included amounts for straight
6 time and overtime. HECO bargaining unit employees are paid a higher rate
7 per hour for overtime work than for straight time work. In 2003, some
8 departments experienced increased overtime.

9 HECO's responses to DOD-IR-9-18(j) and (k) provided the Company's
10 best estimate of the correction factor of 0.67% and the dollar adjustment to
11 payroll expense of \$245,638 that should be applied to remove the apparent
12 overstatement of labor costs from the 2005 test year that resulted from
13 HECO's use of standard labor rates based on 2003.

14

15 Q. How did you compute the related impact on payroll tax expense?

16 A. As shown on DOD-117, line 5, to compute the impact on payroll taxes, I
17 multiplied the payroll expense adjustment by 7.65%, based on the current
18 employer's social security tax rate.²

19

20 Q. What is the total impact on 2005 test year expense of your adjustment for
21 standard labor rates and test year overtime?

22 A. In total, as shown on DOD-117, line 7, this adjustment reduces HECO's 2005

² The 7.65% payroll tax rate consists of 6.2% for old age, survivors and disability insurance (OSADI) up to \$90,000 for 2005; and 1.45% for Medicare (no limit).

1 test year expense by \$264,000.

2

3 ***D. Average Test Year Employees***

4 Q. Please explain the adjustment shown on DOD-118.

5 A. This adjustment reduces payroll expense by \$2.561 million, employee benefits
6 expense by \$583,000 and payroll tax expense by \$196,000 for a total
7 reduction of \$3.340 million to adjust for the gradual impact of filling the
8 significant level of “open positions” in HECO’s 2005 test year filing. In
9 essence, this adjustment reflects:

- 10 • That HECO had not filled the “open positions” as of January 1,
11 2005, the beginning of the test year;
- 12 • That HECO might fill the remaining open positions by December
13 31, 2005, the end of the test year;
- 14 • That a 2005 “average” test year is being used for purposes of
15 determining HECO’s revenue requirement in this proceeding; and
- 16 • That using an average of the “open positions” that HECO had not
17 filled at the beginning of the test year, but might fill by the end of
18 the test year, is consistent with the use of an “average” test year,
19 and gives HECO the benefit of the doubt as to whether all of the
20 “open positions” are really needed or will be filled.

21

22 Q. How many “open positions” did HECO assume in its 2005 test year filing?

23 A. HECO’s response to DOD-IR-8-8(a), at pages 3-4 of 11, indicates that

1 HECO's filing assumed 75 "open" positions. For purposes of that response,
2 positions were considered "open" if the Company's test year December 2005
3 forecasted employee count exceeded the actual December 2004 employee
4 count. The difference shown on DOD-IR-8-8, page 4, between the December
5 2004 actual staffing of 1,415 and the 1,490 projected by HECO in its 2005 test
6 year forecast is 75 "open" positions.

7

8 Q. How did HECO's filing treat "open" positions for the 2005 test year?

9 A. For the most part, HECO's filing treated "open" positions for the 2005 test year
10 as if they were filled throughout the 2005 test year.

11

12 Q. Has HECO provided an estimate of the wages and benefits of "open"
13 positions included in its 2005 test year forecast?

14 A. Yes. HECO's response to DOD-IR-8-8, page 5, shows the estimated wages
15 and benefits of "open" positions included in its 2005 test year forecast as if
16 they were filled throughout the 2005 test year.

17

18 Q. Did you use the information provided in HECO's response to DOD-IR-8-8 to
19 quantify your recommended adjustment?

20 A. Yes. The information provided in HECO's response to DOD-IR-8-8, pages 5,
21 was also provided by HECO in an Excel file. I used that information on DOD-
22 118 to compute my recommended adjustment. The information from HECO's
23 response to DOD-IR-8-8, pages 5, is summarized on page 2 of DOD-118. It
24 shows additional labor costs of \$8,345,902 for "open" positions. I carried this

1 information forward to DOD-118 page 1 by group of accounts and calculated
2 an adjustment for average test year employees by removing one-half of the
3 payroll expense, or \$2.561 million.

4 HECO's response to DOD-IR-8-8 separately identified the amount of
5 employee benefits recorded in Account 926 for "open" positions. My
6 adjustment removed one-half of that amount, for an adjustment to decrease
7 expense by \$583,000.

8 Finally, I applied a rate of 7.65% to the payroll expense adjustment to
9 determine the adjustment to payroll tax expense of \$196,000.

10
11 Q. Is it certain that HECO will fill the remaining "open" positions by the end of the
12 test year?

13 A. No. Referring to pages 6 and 7 of HECO's response to DOD-IR-8-8, there are
14 a considerable number of "open" positions that have not yet been filled, but
15 which HECO projects would be filled in the second half of 2005.

16
17 Q. Is an assumption for vacancies resulting from additional turnover incorporated
18 in HECO's forecast?

19 A. No, it does not appear that a "vacancy" factor was included in HECO's 2005
20 labor cost projections. Rather, HECO's approach was to assume for
21 ratemaking purposes that each "open" position was filled throughout the 2005
22 test year. However, as would be the case with any large company, one would
23 expect additional vacancies to occur and some time lag between vacancies
24 occurring and the subsequent filling of vacant positions. HECO's response to

1 DOD-IR-8-8 indicates that HECO started the 2005 test year with 1,415
2 employees and projected to end the test year with 1,490 employees, a net
3 increase of 75 positions.

4

5 Q. In the past, has HECO automatically filled vacancies?

6 A. No As Mr. Alm indicates (in HECO T-1, on page 19), "Vacancies were not
7 automatically filled."

8

9 Q. Has HECO implemented staff caps and carefully monitored its staffing levels?

10 A. Yes. As Mr. Alm indicates (in HECO T-1, on page 19, lines 3-4), "HECO
11 implemented staff caps and staffing levels were carefully monitored." On that
12 same page, at lines 10-11, he also indicates that: "HECO deliberately
13 reduced spending, while not compromising reliability."

14

15 Q. Is there a need at this time to abandon such cost controls that HECO has
16 successfully employed in the past?

17 A. No. Ratepayers are currently facing not only a significant increase in base
18 rates but also substantially increased fuel and purchased power costs. While
19 HECO has not yet provided an "update" of its fuel costs, the CA has quantified
20 an increase to fuel and purchase power costs of approximately \$227 million
21 above the amount reflected in HECO's filing.³ Given such cost increases, now
22 is an excellent time for HECO to continue deploying cost control efforts to

³ See CA-101, Schedule C-4 and DOD-126. As also shown on CA-101, Schedule C-4, line 7, the Energy Cost Adjustment Rate would more than double from the 2.586 cents per kWh presented in HECO's filing at HECO-1032 to 5.789 cents per kWh as calculated by the CA.

1 reduce spending without compromising reliability.

2

3 Q. Is HECO's proposed ratemaking treatment for 2005 "open" positions
4 consistent with the use of an average test year?

5 A. No, it is not. The "open" positions were not filled at the beginning of the test
6 year and might, or might not, be filled by the end of the test year. Assuming
7 that the positions were filled throughout the test year as HECO has done is
8 not consistent with the use of an average test year. HECO is experiencing
9 sales and revenue growth; however, consistent with the use of an average
10 test year, HECO's revenues have not been updated to December 31, 2005
11 levels. HECO should not be allowed to select specific costs, such as labor,
12 that are known to be increasing and annualize them at year-end levels, while
13 failing to move the other ratemaking elements, including revenue, to a
14 matched, year-end point in time. HECO has annualized labor expense to
15 year-end in a test year revenue requirement that is otherwise quantified using
16 an average test year approach. HECO's proposed labor cost for "open"
17 positions must be adjusted in the manner described above in order to be
18 consistent with the use of an average test year for rate base, electric sales
19 revenues and other operating expenses.

20

21 Q. Did HECO recently provide information concerning how it developed labor
22 costs in its 2005 operating budget?

23 A. Yes. On June 10, 2005, HECO responded to CA-IR-14. HECO's response
24 indicates that after its 2005 budget was developed for test year estimates,

1 adjustments to its "2005 operating budget" were made for known changes
2 including the following specific explanation that appears at page 2 of the
3 response:

4 "Adjustments for then known changes such as additional staffing of
5 \$1,930,000 (less \$490,000 representing the lag in the hiring process for
6 the additional staffing, for a net addition of \$1,440,000), ... **a reduction**
7 **of \$3,694,000 for consideration of a lag in the hiring process for**
8 **positions included in the updated 2005 budget (even with the lag,**
9 **the 2005 year-end employee count is still assumed to be attained).**

10 **The adjustment for the hiring lag started with a projected 2004**
11 **year-end employee count and assumed that positions would be**
12 **filled evenly throughout 2005 to get to the year-end budgeted**
13 **employee count. Since the budget reflected most positions being**
14 **filled at the beginning of the year, the difference in monthly**
15 **employee count resulted in lower costs and is referred to as the**
16 **'hiring lag adjustment'.**" (Emphasis supplied.)

17
18 Q. How does the "hiring lag" adjustment for O&M shown in HECO's response to
19 CA-IR-14 compare with the adjustment you are recommending for average
20 test year employees?

21 A. HECO's response to CA-IR-14, page 5, shows the impact on HECO's 2005
22 O&M Budget to be a \$3,693,762 reduction related to the hiring lag.

23 My recommended total reduction of \$3.340 million to adjust for the

1 gradual impact of filling the significant level of "open positions" in HECO's
2 2005 test year filing, including payroll, benefits, and payroll tax expense
3 shown on DOD-118 is lower than this \$3,693,762 "even hiring lag" adjustment
4 for O&M that the response to CA-IR-14 indicates was reflected in HECO's
5 own 2005 operating budget.

6

7 ***E. Fuel Related Expense***

8 Q. Please explain the adjustment for Fuel Related Expense shown on DOD-119.

9 A. This adjustment reduces Fuel Related Expense by \$672,000, per HECO's
10 response to CA-IR-132.

11

12 Q. Has HECO indicated that it agrees with this adjustment?

13 A. Yes. The Company's responses to DOD-IR-9-2(b) confirmed that "Fuel
14 Related Expenses should be reduced by \$672,000 from \$4.554 million to
15 \$3.882 million."

16

17 ***F. Production Operations and Maintenance Expense***

18 Q. Please explain the adjustment for Production O&M Expense shown on DOD-
19 120.

20 A. This adjustment reduces Production O&M Expense by \$2.039 million for the
21 following items:

Adjustments to Production O&M Expense		Amount	
#	Description	(\$000)	Reference
1	Non-labor CHP	\$ (220)	DOD-IR-9-2(d), CA-IR-641
2	Fuel expense for utility-owned CHP	\$ (838)	DOD-IR-9-2(e), DOD-IR-9-14
3	Sun Power for Schools	\$ (75)	DOD-IR-9-2(f), CA-IR-641
4	Lower Kahe Station water charges	\$ (100)	DOD-IR-9-2(f), CA-IR-664
5	Tolling arrangement study	\$ (75)	DOD-IR-9-2(f), DOD-IR-6-3
	Subtotal	\$ (1,308)	
6	Kahe 7 remaining amortization	\$ (731)	DOD-IR-6-12, CA-IR-184
	Total	\$ (2,039)	

1

2

3 Q. Has HECO indicated that it agrees with some of these adjustments?

4 A. Yes. Based on the Company's responses to DOD-IR-9-2(d) through (f) and
5 the other responses cited for items 1-5 in the above table, it is my
6 understanding that HECO agrees with the adjustments to Production O&M
7 Expense shown on the first five lines of the table, which total \$1.308 million.

8

9 Q. Please explain the adjustment to reschedule the Kahe 7 remaining
10 amortization.

11 A. HECO's response to DOD-IR-6-12 indicates that the remaining unamortized
12 balance for Kahe 7 costs was \$1.575 million at December 31, 2004 and is
13 projected to be \$675,000 by December 31, 2005. During the 2005 test year,
14 HECO amortized \$900,000 for this item. This \$900,000 test year amortization
15 is the difference between the beginning and end-of-test year balances listed in
16 the response to DOD-IR-6-12. Unless an adjustment is made, the \$900,000
17 amortization expense that HECO recorded in 2005 would remain in rates on
18 an annual basis prospectively, and HECO would significantly over-collect this
19 cost. To allow HECO a reasonable opportunity to collect the remaining
20 December 31, 2005 unamortized balance and avoid an over-collection, I have

1 rescheduled the amortization of the remaining \$675,000 over a four-year
2 period. This provides for an annual allowance of \$168,750, as shown on
3 DOD-120, line 11. The adjustment reduces HECO's test year recorded
4 amortization by \$731,250, as shown on DOD-120, lines 6 and 12.

5 **G. Customer Service Expense – Reorganization**

6 Q. Please explain the adjustment for Customer Service Expense –
7 Reorganization.

8 A. This adjustment is shown on DOD-121 and increases expense by \$505,000
9 for the Customer Service Reorganization described in the HECO's response
10 to CA-IR-78.

11

12 **H. Depreciation and Amortization Expense**

13 Q. Please explain the adjustment for Depreciation and Amortization Expense.

14 A. This adjustment is shown on DOD-122 and updates 2005 test year
15 Depreciation and Amortization Expense for the items listed on HECO's
16 response to DOD-IR-9-2(q) and (r) and DOD-IR-9-2, page 11, column H, with
17 one exception.

18

19 Q. What is the one exception?

20 A. HECO's response to DOD-IR-9-2(s) indicates that HECO proposes to add
21 \$192,685 amortization for the King Street Lease. This is related to HECO's
22 proposal to treat that as a capital lease for ratemaking purposes, as discussed
23 in HECO's response to CA-IR-260. Because I disagree with this HECO

1 proposal and recommend that the King Street Lease continue to be reflected
2 for ratemaking purposes as an operating lease (i.e., by reflecting the rent as
3 an operating expense, rather than including the lease obligation in rate base
4 and amortizing it), the new HECO pro forma amount of King Street Lease
5 amortization is excluded from my recommended Depreciation and
6 Amortization Expense.

7

8 Q. What adjustment for Depreciation and Amortization Expense do you
9 recommend?

10 A. As shown on DOD-122, the Depreciation and Amortization Expense in
11 HECO's original filing should be reduced by \$1.326 million.

12

13 ***I. Administrative and General Expense***

14 Q. What adjustment for Administrative and General Expense do you
15 recommend?

16 A. As shown on DOD-123, the Administrative and General Expense in HECO's
17 original filing should be increased by \$451,000 for the net impact of the
18 following items:

Adjustments to A&G Expense	Amount	
Description	(\$000)	Reference
HR Suites Software Cost	\$ (184)	DOD-IR-9-2(k)
HEI Charges to HECO	\$ 95	DOD-IR-9-2(l)
Audit and Sarbanes-Oxley Expense	\$ 381	DOD-IR-9-2(m)
Research and Development	\$ (96)	DOD-IR-9-2(n)
Regulatory Commission Expense	\$ (9)	CA-101, Sch C-18; CA T-2, pp 61-71
Employee Benefits	\$ 264	HECO 6/15/05 update, Attachment 8, page 1 of 49, line 19, Cols (k) and (i),
Total	\$ 451	

19

1

2 Q. Please explain the adjustments for these items.

3 A. The first four items are updated amounts quantified by HECO in response to
4 various data requests, including DOD-IR-9-2(k) through (n), respectively.

5 In response to CA-IR-258, HECO proposed to more than double its
6 regulatory expense from \$284,000 to \$672,000, causing its three-year
7 amortization of such expense to increase by \$129,000, i.e., from \$95,000 in its
8 filing at HECO-1603 to \$224,000 per its response to CA-IR-258. HECO's
9 response to DOD-IR-9-2(j) identifies this \$129,000 as the amount of HECO's
10 proposed increase. CA T-2 (direct testimony of Mr. Carver) at pages 61-71
11 raises several concerns regarding HECO's regulatory expense update that
12 appear to me to be valid and legitimate points. Consequently, rather than
13 HECO's proposed "update" increase, I have reflected the CA's
14 recommendation as the amount for this adjustment, which decreases the
15 expense in HECO's filing by \$9,000,

16 As noted in the above table, the source for the \$264,000 increase to
17 employee benefits expense that I reflected is HECO's 6/15/05 update,
18 Attachment 8, page 1 of 49, line 19, Cols (k) and (i), as referenced in HECO's
19 response to DOD-IR-9-2(o) and (p).

20 ***J. Other Taxes – SUTA***

21 Q. Please explain the adjustment for Other Taxes – SUTA.

22 A. As shown on DOD-124, this adjustment reduces Other Taxes by \$202,000 to
23 remove state unemployment tax. HECO has acknowledged that this
24 adjustment should be made in a number of places including HECO T-17, page

1 4; HECO's May 5 update, page 4; and its response to DOD-IR-9-2(t).

2

3 ***K. Income Taxes – Interest Synchronization***

4 Q. Please explain the adjustment for interest synchronization.

5 A. As shown on DOD-125, the interest synchronization adjustment synchronizes
6 the rate base and cost of capital with the tax calculation. It is calculated by
7 applying the DOD's recommended weighted cost of debt to the adjusted rate
8 base for HECO to obtain a synchronized interest deduction for use in the
9 calculation of test year income tax expense. As shown on DOD-125, I applied
10 DOD witness Hill's recommended weighted cost of debt, which is 2.59% and
11 can be found on DOD-105, line 14, to the adjusted rate base amount in order
12 to determine the pro forma interest deduction to be used in calculating income
13 tax expense for the 2005 test year. The combined state and federal income
14 tax rates are applied to the resulting interest deduction difference to determine
15 the amount of adjustment to income tax expense for interest synchronization.

16

17 Q. Did HECO reflect an interest synchronization adjustment in its filing?

18 A. No. HECO did not reflect a synchronized interest calculation in its filing.

19 Thus, the interest expense used by HECO has not been properly coordinated
20 with its rate base or cost of capital.

21

22 Q. Are you aware of any theories that could be asserted by a utility as a reason
23 for failing to make an interest synchronization adjustment?

24 A. Not valid ones. Many years ago, before the interest synchronization

1 adjustment began to gain overwhelming regulatory support and recognition,
2 sometimes utilities would assert that it could result in a “normalization
3 violation” under the Internal Revenue Code and thus jeopardize the use of
4 accelerated tax depreciation or investment tax credits. However, it has
5 subsequently become well settled and widely acknowledged that such
6 arguments have no current validity. Consequently, the interest
7 synchronization adjustment is routinely made in utility rate cases, and the
8 basic calculation method is typically no longer even a topic of debate.
9

10 Q. Is the interest synchronization adjustment routinely accepted by utilities and
11 utility regulators as an appropriate and necessary adjustment for ratemaking
12 purposes in the utility rate cases in which you have been involved, especially
13 in recent years?

14 A. Yes. Utilities and utility regulators routinely accept the interest synchronization
15 adjustment as appropriate and necessary for ratemaking purposes in the
16 utility rate cases in which I and other Larkin & Associates' expert witnesses
17 and rate analysts have been involved. Typically, the interest synchronization
18 adjustment is presented in the utility's initial filing and then is only adjusted, if
19 necessary, for changes to rate base or cost of capital.
20

21 ***L. Electric Sales Revenue and Fuel Update Placeholder***

22 Q. Please explain the adjustment shown on DOD-126.

23 A. DOD attempted to obtain HECO's updated test year sales revenues in request
24 such as DOD-IR-9-16, DOD-IR-11-1(a), etc. In response, HECO did not

1 provide the requested information but instead stated that:

2 "The Company will provide finalized and updated electric sales
3 revenues and supporting calculations when the final sales estimates
4 and fuel expenses are adopted. HECO's final sales estimates and fuel
5 expenses may be adjusted subsequent to the presentation of the CA's
6 and DOD's testimonies on these items."

7 See HECO response to DOD-IR-11-1(a).

8 Additionally, DOD-IR-11-1(c) and (d) asked HECO to provide the
9 following information concerning fuel and purchased energy expense:

10 "c. Please provide the quantification of the Energy Cost Adjustment
11 Factor update using 5/1/05 contract fuel and purchased energy prices
12 as mentioned in HECO's 5/4/05 "Listing and Description of Updates"
13 under "Electric Sales Revenues" item iii. Include supporting workpapers
14 and calculations.

15 "d. Please provide the impact on 2005 fuel costs from the combined
16 impact of the revised 2005 sales forecast and the use of 5/1/05 contract
17 fuel and purchased energy prices. Include supporting workpapers and
18 calculations."

19 HECO's response to these requests did not provide this requested information,
20 but indicated that HECO would provide it in its rebuttal testimony.

21 Thus, important information needed to determine HECO's revenue
22 requirement, including 2005 test year electric sales revenue, fuel and
23 purchased power costs, and fuel inventory (as well as some other rate base
24 items) are lacking.

1 In order to provide a placeholder for 2005 test year electric sales
2 revenue, and fuel and purchased power costs, I have reflected on DOD-126
3 the CA's adjustments C-1 through C-4, which did take into consideration the
4 revised 2005 test year sales forecast and updated fuel and purchased power
5 costs.

6
7 Q. What impact does this adjustment have?

8 A. As shown on DOD-126, this increases 2005 test year electric sales revenue
9 by \$254.140 million, increases fuel and purchase power expense by \$226.716
10 million, and increases revenue-based taxes by \$22.580 million.

11
12 **V. OTHER ISSUES**

13 Q. Are there any other issues not directly incorporated in your recommended rate
14 base and net operating income adjustments that you wish to address?

15 A. Yes, there is one other issue that has arisen as a result of HECO's responses
16 to information requests that I will address.

17
18 **A. King Street Lease**

19 Q. Has the Commission issued a ruling concerning the King Street lease?

20 A. Yes. On May 13, 2005, the Commission issued Decision and Order No.
21 21821 concluding that all ratemaking issues pertaining to HECO's King Street
22 lease will be addressed in the pending rate case. This was in response to a
23 petition that HECO filed on April 6, 2005, in Docket No. 05-0084 requesting,

1 among other things, Commission approval of the Company's capital lease
2 agreement.

3

4 Q. Does HECO's filing reflect the King Street Lease as a capital lease?

5 A. No, it does not. HECO's proposal to treat King Street Lease as a capital lease
6 for ratemaking purposes was developed by the Company after its rate case
7 filing and is described in the response to CA-IR-260. HECO's original filing
8 treats this as an operating lease by including the rent as an operating
9 expense, rather than including the "lease obligation" in rate base and
10 amortizing it.

11

12

13 Q. Do you agree with HECO's proposal to treat the King Street Lease as a capital
14 lease?

15 A. No. This HECO proposal should be rejected for the following reasons.

16 First, it unnecessarily and significantly would increase ratepayer costs
17 as compared with the traditional way of treating this as an operating lease for
18 ratemaking purposes. The cost increase results from including the "lease
19 obligation" pursuant to Statement of Financial Account Standards No. 13 (FAS
20 13) in rate base, and charging ratepayers a return on it, in addition to
21 amortization. Essentially, HECO's proposal would "front load" costs over the
22 life of the lease into the 2005 test year, and charge ratepayers for a higher
23 cost annually based on 2005, even though under such an approach the
24 annual "revenue requirement" would decline each year as the initial rate base

1 amount is amortized.

2 Second, HECO has not borrowed funds or incurred debt to finance the
3 amount of approximately \$10 million that it proposes to include in rate base.
4 Rather, that amount is merely the result of calculations pursuant to FAS 13 to
5 determine the "lease obligation."

6 Third, there is no regulatory requirement that a "capital lease" under
7 FAS 13 must be included in rate base and amortized for ratemaking purposes,
8 especially where such treatment would increase the cost to ratepayers.

9 Fourth, HECO's approach also contrasts with using a "levelized" lease
10 cost for ratemaking purposes, and charges ratepayers more by picking the
11 first, and presumably highest, year of the "capitalized" lease as the basis for
12 its proposed ratemaking amount, which would be charged to ratepayers on an
13 annual basis indefinitely, until HECO's base rates are reset in a future
14 proceeding.

15 Fifth, HECO does not and will not have any ownership in the lease
16 facilities.

17 For all of these reasons, I recommend that the traditional ratemaking
18 treatment associated with HECO's lease of the King Street building be
19 continued, and HECO's proposed rate base inclusion of a "lease obligation"
20 be rejected.

21

22 Q. Has the King Street Lease obligation been excluded from the DOD's
23 recommended capital structure?

24 A. Yes. The DOD's recommended capital structure and cost of capital presented

1 on DOD-105 excludes the King Street Lease obligation.

2

3 Q. Does this conclude your direct testimony?

4 A. Yes, it does.

Exhibits

Accompanying the Direct Testimony of Ralph C. Smith

Number	Description	Pages
	Qualifications	
DOD-100	Experience and Qualifications of Ralph C. Smith	8
	Revenue Requirement Summary Schedules	
DOD-101	Calculation of Revenue Deficiency	2
DOD-102	Gross Revenue Conversion Factor	1
DOD-103	Adjusted Rate Base	1
DOD-104	Adjusted Net Operating Income	1
DOD-105	Capital Structure and Cost Rates	1
	Rate Base Adjustments	
DOD-106	Summary of Adjustments to Rate Base	1
DOD-107	Net Plant in Service Update	1
DOD-108	Other Rate Base Updates	1
DOD-109	Property Held for Future Use	1
DOD-110	Remove Net Pension Asset	2
DOD-111	Unamortized HRS System Development Costs	1
DOD-112	Cash Working Capital	1
DOD-113	Fuel Inventory Placeholder	1
	Net Operating Income Adjustments	
DOD-114	Summary of Adjustments to Net Operating Income	1
DOD-115	Other Operating Revenue	1
DOD-116	Remove DSM Costs	1
DOD-117	Standard Labor Rates and Test Year Overtime	1
DOD-118	Average Test Year Employees	2
DOD-119	Fuel Related Expense	1
DOD-120	Production Operations and Maintenance Expense	1
DOD-121	Customer Service Expense - Reorganization	1
DOD-122	Depreciation and Amortization Expense	1
DOD-123	Administrative and General Expense	1
DOD-124	Other Taxes SUTA	1
DOD-125	Income Taxes - Interest Synchronization	1
DOD-126	Electric Sales Revenue and Fuel Update Placeholder	1
	Total Pages	37

QUALIFICATIONS OF RALPH C. SMITH

Accomplishments

Mr. Smith's professional credentials include being a Certified Financial Planner™ professional, a licensed certified public accountant and attorney. He functions as project manager on consulting projects involving utility regulation, regulatory policy and ratemaking and utility management. His involvement in public utility regulation has included project management and in-depth analyses of numerous issues involving telephone, electric, gas, and water and sewer utilities.

Mr. Smith has performed work in the field of utility regulation on behalf of industry, PSC staffs, state attorney generals, municipalities, and consumer groups concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New York, Nevada, North Carolina, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Vermont, Canada, Federal Energy Regulatory Commission and various state and federal courts of law. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on several occasions.

Project manager in Larkin & Associates' review, on behalf of the Georgia Commission Staff, of the budget and planning activities of Georgia Power Company; supervised 13 professionals; coordinated over 200 interviews with Company budget center managers and executives; organized and edited voluminous audit report; presented testimony before the Commission. Functional areas covered included fossil plant O&M, headquarters and district operations, internal audit, legal, affiliated transactions, and responsibility reporting. All of our findings and recommendations were accepted by the Commission.

Key team member in the firm's management audit of the Anchorage Water and Wastewater Utility on behalf of the Alaska Commission Staff, which assessed the effectiveness of the Utility's operations in several areas; responsible for in-depth investigation and report writing in areas involving information systems, finance and accounting, affiliated relationships and transactions, and use of outside contractors. Testified before the Alaska Commission concerning certain areas of the audit report. AWWU concurred with each of Mr. Smith's 40 plus recommendations for improvement.

Co-consultant in the analysis of the issues surrounding gas transportation performed for the law firm of Cravath, Swaine & Moore in conjunction with the case of Reynolds Metals Co. vs. the Columbia Gas System, Inc.; drafted in-depth report concerning the regulatory treatment at both state and federal levels of issues such as flexible pricing and mandatory gas transportation.

Lead consultant and expert witness in the analysis of the rate increase request of the City of Austin - Electric Utility on behalf of the residential consumers. Among the numerous ratemaking issues addressed was the economies of the Utility's employment of outside services; provided both written and oral testimony outlining recommendations and their bases. Most of Mr. Smith's recommendations were adopted by the City Council and Utility in a settlement.

Key team member performing an analysis of the rate stabilization plan submitted by the Southern Bell Telephone & Telegraph Company to the Florida PSC; performed comprehensive analysis of the Company's projections and budgets which were used as the basis for establishing rates.

Lead consultant in analyzing Southwestern Bell Telephone separations in Missouri; sponsored the complex technical analysis and calculations upon which the firm's testimony in that case was based. He has also assisted in analyzing changes in depreciation methodology for setting telephone rates.

Lead consultant in the review of gas cost recovery reconciliation applications of Michigan Gas Utilities Company, Michigan Consolidated Gas Company, and Consumers Power Company. Drafted recommendations regarding the appropriate rate of interest to be applied to any over or under collections

and the proper procedures and allocation methodology to be used to distribute any refunds to customer classes.

Lead consultant in the review of Consumers Power Company's gas cost recovery refund plan. Addressed appropriate interest rate and compounding procedures and proper allocation methodology.

Project manager in the review of the request by Central Maine Power Company for an increase in rates. The major area addressed was the propriety of the Company's ratemaking attrition adjustment in relation to its corporate budgets and projections.

Project manager in an engagement designed to address the impacts of the Tax Reform Act of 1986 on gas distribution utility operations of the Northern States Power Company. Analyzed the reduction in the corporate tax rate, uncollectibles reserve, ACRS, unbilled revenues, customer advances, CIAC, and timing of TRA-related impacts associated with the Company's tax liability.

Project manager and expert witness in the determination of the impacts of the Tax Reform Act of 1986 on the operations of Connecticut Natural Gas Company on behalf of the Connecticut Department of Public Utility Control - Prosectorial Division, Connecticut Attorney General, and Connecticut Department of Consumer Counsel.

Lead Consultant for The Minnesota Department of Public Service ("DPS") to review the Minnesota Incentive Plan ("Incentive Plan") proposal presented by Northwestern Bell Telephone Company ("NWB") doing business as U S West Communications ("USWC"). Objective was to express an opinion as to whether current rates addressed by the plan were appropriate from a Minnesota intrastate revenue requirements and accounting perspective, and to assist in developing recommended modifications to NWB's proposed Plan.

Performed a variety of analytical and review tasks related to our work effort on this project. Obtained and reviewed data and performed other procedures as necessary (1) to obtain an understanding of the Company's Incentive Plan filing package as it relates to rate base, operating income, revenue requirements, and plan operation, and (2) to formulate an opinion concerning the reasonableness of current rates and of amounts included within the Company's Incentive Plan filing. These procedures included requesting and reviewing extensive discovery, visiting the Company's offices to review data, issuing follow-up information requests in many instances, telephone and on-site discussions with Company representatives, and frequent discussions with counsel and DPS Staff assigned to the project.

Lead Consultant in the regulatory analysis of Jersey Central Power & Light Company for the Department of the Public Advocate, Division of Rate Counsel. Tasks performed included on-site review and audit of Company, identification and analysis of specific issues, preparation of data requests, testimony, and cross examination questions. Testified in Hearings.

Assisted the NARUC Committee on Management Analysis with drafting the Consultant Standards for Management Audits.

Presented training seminars covering public utility accounting, tax reform, ratemaking, affiliated transaction auditing, rate case management, and regulatory policy in Maine, Georgia, Kentucky, and Pennsylvania. Seminars were presented to commission staffs and consumer interest groups.

Previous Positions

With Larkin, Chapski and Co., the predecessor firm to Larkin & Associates, was involved primarily in utility regulatory consulting, and also in tax planning and tax research for businesses and individuals, tax return preparation and review, and independent audit, review and preparation of financial statements.

Installed computerized accounting system for a realty management firm.

Education

Bachelor of Science in Administration in Accounting, with distinction, University of Michigan, Dearborn, 1979.

Master of Science in Taxation, Walsh College, Michigan, 1981. Master's thesis dealt with investment tax credit and property tax on various assets.

Juris Doctor, cum laude, Wayne State University Law School, Detroit, Michigan, 1986. Recipient of American Jurisprudence Award for academic excellence.

Continuing education required to maintain CPA license and CFP certificate.

Passed all parts of CPA examination in first sitting, 1979. Received CPA certificate in 1981 and Certified Financial Planning certificate in 1983. Admitted to Michigan and Federal bars in 1986.

Michigan Bar Association.

American Bar Association, sections on public utility law and taxation.

Partial list of utility cases participated in:

79-228-EL-FAC	Cincinnati Gas & Electric Company (Ohio PUC)
79-231-EL-FAC	Cleveland Electric Illuminating Company (Ohio PUC)
79-535-EL-AIR	East Ohio Gas Company (Ohio PUC)
80-235-EL-FAC	Ohio Edison Company (Ohio PUC)
80-240-EL-FAC	Cleveland Electric Illuminating Company (Ohio PUC)
U-1933*	Tucson Electric Power Company (Arizona Corp. Commission)
U-6794	Michigan Consolidated Gas Co. --16 Refunds (Michigan PSC)
81-0035TP	Southern Bell Telephone Company (Florida PSC)
81-0095TP	General Telephone Company of Florida (Florida PSC)
81-308-EL-EFC	Dayton Power & Light Co.- Fuel Adjustment Clause (Ohio PUC)
810136-EU	Gulf Power Company (Florida PSC)
GR-81-342	Northern States Power Co. -- E-002/Minnesota (Minnesota PUC)
Tr-81-208	Southwestern Bell Telephone Company (Missouri PSC))
U-6949	Detroit Edison Company (Michigan PSC)
8400	East Kentucky Power Cooperative, Inc. (Kentucky PSC)
18328	Alabama Gas Corporation (Alabama PSC)
18416	Alabama Power Company (Alabama PSC)
820100-EU	Florida Power Corporation (Florida PSC)
8624	Kentucky Utilities (Kentucky PSC)
8648	East Kentucky Power Cooperative, Inc. (Kentucky PSC)
U-7236	Detroit Edison - Burlington Northern Refund (Michigan PSC)
U6633-R	Detroit Edison - MRCS Program (Michigan PSC)
U-6797-R	Consumers Power Company -MRCS Program (Michigan PSC)
U-5510-R	Consumers Power Company - Energy conservation Finance Program (Michigan PSC)
82-240E	South Carolina Electric & Gas Company (South Carolina PSC)
7350	Generic Working Capital Hearing (Michigan PSC)
RH-1-83	Westcoast Transmission Co., (National Energy Board of Canada)
820294-TP	Southern Bell Telephone & Telegraph Co. (Florida PSC)
82-165-EL-EFC (Subfile A)	Toledo Edison Company(Ohio PUC)

82-168-EL-EFC	Cleveland Electric Illuminating Company (Ohio PUC)
830012-EU	Tampa Electric Company (Florida PSC)
U-7065	The Detroit Edison Company - Fermi II (Michigan PSC)
8738	Columbia Gas of Kentucky, Inc. (Kentucky PSC)
ER-83-206	Arkansas Power & Light Company (Missouri PSC)
U-4758	The Detroit Edison Company – Refunds (Michigan PSC)
8836	Kentucky American Water Company (Kentucky PSC)
8839	Western Kentucky Gas Company (Kentucky PSC)
83-07-15	Connecticut Light & Power Co. (Connecticut DPU)
81-0485-WS	Palm Coast Utility Corporation (Florida PSC)
U-7650	Consumers Power Co. - Partial and Immediate (Michigan PSC)
83-662	Continental Telephone Company of California, (Nevada PSC)
U-7650	Consumers Power Company – Final (Michigan PSC)
U-6488-R	Detroit Edison Co., FAC & PIPAC Reconciliation (Michigan PSC)
U-15684	Louisiana Power & Light Company (Louisiana PSC)
7395 & U-7397	Campaign Ballot Proposals (Michigan PSC)
820013-WS	Seacoast Utilities (Florida PSC)
U-7660	Detroit Edison Company (Michigan PSC)
83-1039	CP National Corporation (Nevada PSC)
U-7802	Michigan Gas Utilities Company (Michigan PSC)
83-1226	Sierra Pacific Power Company (Nevada PSC)
830465-EI	Florida Power & Light Company (Florida PSC)
U-7777	Michigan Consolidated Gas Company (Michigan PSC)
U-7779	Consumers Power Company (Michigan PSC)
U-7480-R	Michigan Consolidated Gas Company (Michigan PSC)
U-7488-R	Consumers Power Company – Gas (Michigan PSC)
U-7484-R	Michigan Gas Utilities Company (Michigan PSC)
U-7550-R	Detroit Edison Company (Michigan PSC)
U-7477-R**	Indiana & Michigan Electric Company (Michigan PSC)
18978	Continental Telephone Co. of the South Alabama (Alabama PSC)
R-842583	Duquesne Light Company (Pennsylvania PUC)
R-842740	Pennsylvania Power Company (Pennsylvania PUC)
850050-EI	Tampa Electric Company (Florida PSC)
16091	Louisiana Power & Light Company (Louisiana PSC)
19297	Continental Telephone Co. of the South Alabama (Alabama PSC)
76-18788AA &76-18793AA	Detroit Edison - Refund - Appeal of U-4807 (Ingham County, Michigan Circuit Court)
85-53476AA & 85-534785AA	Detroit Edison Refund - Appeal of U-4758 (Ingham County, Michigan Circuit Court)
U-8091/U-8239	Consumers Power Company - Gas Refunds (Michigan PSC)
TR-85-179**	United Telephone Company of Missouri (Missouri PSC)
85-212	Central Maine Power Company (Maine PSC)
ER-85646001 & ER-85647001	New England Power Company (FERC)
850782-EI & 850783-EI	Florida Power & Light Company (Florida PSC)
R-860378	Duquesne Light Company (Pennsylvania PUC)
R-850267	Pennsylvania Power Company (Pennsylvania PUC)
851007-WU & 840419-SU	Florida Cities Water Company (Florida PSC)
G-002/GR-86-160	Northern States Power Company (Minnesota PSC)
7195 (Interim)	Gulf States Utilities Company (Texas PUC)
87-01-03	Connecticut Natural Gas Company (Connecticut PUC)
87-01-02	Southern New England Telephone Company (Connecticut Department of Public Utility Control)

R-860378	Duquesne Light Company Surrebuttal (Pennsylvania PUC)
3673-	Georgia Power Company (Georgia PSC)
29484	Long Island Lighting Co. (New York Dept. of Public Service)
U-8924	Consumers Power Company – Gas (Michigan PSC)
Docket No. 1	Austin Electric Utility (City of Austin, Texas)
Docket E-2, Sub 527	Carolina Power & Light Company (North Carolina PUC)
870853	Pennsylvania Gas and Water Company (Pennsylvania PUC)
880069**	Southern Bell Telephone Company (Florida PSC)
U-1954-88-102	Citizens Utilities Rural Company, Inc. & Citizens Utilities
T E-1032-88-102	Company, Kingman Telephone Division (Arizona CC)
89-0033	Illinois Bell Telephone Company (Illinois CC)
U-89-2688-T	Puget Sound Power & Light Company (Washington UTC))
R-891364	Philadelphia Electric Company (Pennsylvania PUC)
F.C. 889	Potomac Electric Power Company (District of Columbia PSC)
Case No. 88/546*	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (Supreme Court County of Onondaga, State of New York)
87-11628*	Duquesne Light Company, et al, plaintiffs, against Gulf+ Western, Inc. et al, defendants (Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
890319-EI	Florida Power & Light Company (Florida PSC)
891345-EI	Gulf Power Company (Florida PSC)
ER 8811 0912J	Jersey Central Power & Light Company (BPU)
6531	Hawaiian Electric Company (Hawaii PUCs)
R0901595	Equitable Gas Company (Pennsylvania Consumer Counsel)
90-10	Artesian Water Company (Delaware PSC)
89-12-05	Southern New England Telephone Company (Connecticut PUC)
900329-WS	Southern States Utilities, Inc. (Florida PSC)
90-12-018	Southern California Edison Company (California PUC)
90-E-1185	Long Island Lighting Company (New York DPS)
R-911966	Pennsylvania Gas & Water Company (Pennsylvania PUC)
I.90-07-037, Phase II	(Investigation of OPEBs) Department of the Navy and all Other Federal Executive Agencies (California PUC)
U-1551-90-322	Southwest Gas Corporation (Arizona CC)
U-1656-91-134	Sun City Water Company (Arizona RUCO)
U-2013-91-133	Havasu Water Company (Arizona RUCO)
91-174***	Central Maine Power Company (Department of the Navy and all Other Federal Executive Agencies)
U-1551-89-102	Southwest Gas Corporation - Rebuttal and PGA Audit (Arizona
& U-1551-89-103	Corporation Commission)
Docket No. 6998	Hawaiian Electric Company (Hawaii PUC)
TC-91-040A and	Intrastate Access Charge Methodology, Pool and Rates
TC-91-040B	Local Exchange Carriers Association and South Dakota Independent Telephone Coalition
9911030-WS &	General Development Utilities - Port Malabar and
911-67-WS	West Coast Divisions (Florida PSC)
922180	The Peoples Natural Gas Company (Pennsylvania PUC)
7233 and 7243	Hawaiian Nonpension Postretirement Benefits (Hawaiian PUC)
R-00922314	
& M-920313C006	Metropolitan Edison Company (Pennsylvania PUC)
R00922428	Pennsylvania American Water Company (Pennsylvania PUC)
E-1032-92-083 &	
U-1656-92-183	Citizens Utilities Company, Agua Fria Water Division (Arizona Corporation Commission)
92-09-19	Southern New England Telephone Company (Connecticut PUC)
E-1032-92-073	Citizens Utilities Company (Electric Division), (Arizona CC)

UE-92-1262	Puget Sound Power and Light Company (Washington UTC))
92-345	Central Maine Power Company (Maine PUC)
R-932667	Pennsylvania Gas & Water Company (Pennsylvania PUC)
U-93-60**	Matanuska Telephone Association, Inc. (Alaska PUC)
U-93-50**	Anchorage Telephone Utility (Alaska PUC)
U-93-64	PTI Communications (Alaska PUC)
7700	Hawaiian Electric Company, Inc. (Hawaii PUC)
E-1032-93-111 &	Citizens Utilities Company - Gas Division
U-1032-93-193	(Arizona Corporation Commission
R-00932670	Pennsylvania American Water Company (Pennsylvania PUC)
U-1514-93-169/	Sale of Assets CC&N from Contel of the West, Inc. to
E-1032-93-169	Citizens Utilities Company (Arizona Corporation Commission)
7766	Hawaiian Electric Company, Inc. (Hawaii PUC)
93-2006- GA-AIR*	The East Ohio Gas Company (Ohio PUC)
94-E-0334	Consolidated Edison Company (New York DPS)
94-0270	Inter-State Water Company (Illinois Commerce Commission)
94-0097	Citizens Utilities Company, Kauai Electric Division (Hawaii PUC)
PU-314-94-688	Application for Transfer of Local Exchanges (North Dakota PSC)
94-12-005-Phase I	Pacific Gas & Electric Company (California PUC)
R-953297	UGI Utilities, Inc. - Gas Division (Pennsylvania PUC)
95-03-01	Southern New England Telephone Company (Connecticut PUC)
95-0342	Consumer Illinois Water, Kankakee Water District (Illinois CC)
94-996-EL-AIR	Ohio Power Company (Ohio PUC)
95-1000-E	South Carolina Electric & Gas Company (South Carolina PSC)
Non-Docketed	Citizens Utility Company - Arizona Telephone Operations
Staff Investigation	(Arizona Corporation Commission)
E-1032-95-473	Citizens Utility Co. - Northern Arizona Gas Division (Arizona CC)
E-1032-95-433	Citizens Utility Co. - Arizona Electric Division (Arizona CC)
	Collaborative Ratemaking Process Columbia Gas of Pennsylvania
	(Pennsylvania PUC)
GR-96-285	Missouri Gas Energy (Missouri PSC)
94-10-45	Southern New England Telephone Company (Connecticut PUC)
A.96-08-001 et al.	California Utilities' Applications to Identify Sunk Costs of Non-
	Nuclear Generation Assets, & Transition Costs for Electric Utility
	Restructuring, & Consolidated Proceedings (California PUC)
96-324	Bell Atlantic - Delaware, Inc. (Delaware PSC)
96-08-070, et al.	Pacific Gas & Electric Co., Southern California Edison Co. and
	San Diego Gas & Electric Company (California PUC)
97-05-12	Connecticut Light & Power (Connecticut PUC)
R-00973953	Application of PECO Energy Company for Approval of its
	Restructuring Plan Under Section 2806 of the Public Utility Code
	(Pennsylvania PUC)
97-65	Application of Delmarva Power & Light Co. for Application of a
	Cost Accounting Manual and a Code of Conduct (Delaware PSC)
16705	Entergy Gulf States, Inc. (Cities Steering Committee)
E-1072-97-067	Southwestern Telephone Co. (Arizona Corporation Commission)
Non-Docketed	Delaware - Estimate Impact of Universal Services Issues
Staff Investigation	(Delaware PSC)
PU-314-97-12	US West Communications, Inc. Cost Studies (North Dakota PSC)
97-0351	Consumer Illinois Water Company (Illinois CC)
97-8001	Investigation of Issues to be Considered as a Result of Restructuring of Electric
	Industry (Nevada PSC)
U-0000-94-165	Generic Docket to Consider Competition in the Provision
	of Retail Electric Service (Arizona Corporation Commission)
98-05-006-Phase I	San Diego Gas & Electric Co., Section 386 costs (California PUC)
9355-U	Georgia Power Company Rate Case (Georgia PUC)

97-12-020 - Phase I	Pacific Gas & Electric Company (California PUC)
U-98-56, U-98-60,	Investigation of 1998 Intrastate Access charge filings
U-98-65, U-98-67	(Alaska PUC)
(U-99-66, U-99-65,	Investigation of 1999 Intrastate Access Charge filing
U-99-56, U-99-52)	(Alaska PUC)
Phase II of 97-SCCC-149-GIT	
	Southwestern Bell Telephone Company Cost Studies (Kansas CC)
PU-314-97-465	US West Universal Service Cost Model (North Dakota PSC)
Non-docketed Assistance	Bell Atlantic - Delaware, Inc., Review of New Telecomm. and Tariff Filings (Delaware PSC)
Contract Dispute	City of Zeeland, MI - Water Contract with the City of Holland, MI (Before an arbitration panel)
Non-docketed Project	City of Danville, IL - Valuation of Water System (Danville, IL)
Non-docketed	Village of University Park, IL - Valuation of Water and
Project	Sewer System (Village of University Park, Illinois)
E-1032-95-417	Citizens Utility Co., Maricopa Water/Wastewater Companies et al. (Arizona Corporation Commission)
T-1051B-99-0497	Proposed Merger of the Parent Corporation of Qwest Communications Corporation, LCI International Telecom Corp., and US West Communications, Inc. (Arizona CC)
T-01051B-99-0105	US West Communications, Inc. Rate Case (Arizona CC)
A00-07-043	Pacific Gas & Electric - 2001 Attrition (California PUC)
T-01051B-99-0499	US West/Quest Broadband Asset Transfer (Arizona CC)
99-419/420	US West, Inc. Toll and Access Rebalancing (North Dakota PSC)
PU314-99-119	US West, Inc. Residential Rate Increase and Cost Study Review (North Dakota PSC)
98-0252	Ameritech - Illinois, Review of Alternative Regulation Plan (Illinois CUB)
00-108	Delmarva Billing System Investigation (Delaware PSC)
U-00-28	Matanuska Telephone Association (Alaska PUC)
Non-Docketed	Management Audit and Market Power Mitigation Analysis of the Merged Gas System Operation of Pacific Enterprises and Enova Corporation (California PUC)
00-11-038	Southern California Edison (California PUC)
00-11-056	Pacific Gas & Electric (California PUC)
00-10-028	The Utility Reform Network for Modification of Resolution E- 3527 (California PUC)
98-479	Delmarva Power & Light Application for Approval of its Electric and Fuel Adjustments Costs (Delaware PSC)
99-457	Delaware Electric Cooperative Restructuring Filing (Delaware PSC)
99-582	Delmarva Power & Light dba Conectiv Power Delivery Analysis of Code of Conduct and Cost Accounting Manual (Delaware PSC)
99-03-04	United Illuminating Company Recovery of Stranded Costs (Connecticut OCC)
99-03-36	Connecticut Light & Power (Connecticut OCC)
Civil Action No.	
98-1117	West Penn Power Company vs. PA PUC (Pennsylvania PSC)
Case No. 12604	Upper Peninsula Power Company (Michigan AG)
Case No. 12613	Wisconsin Public Service Commission (Michigan AG)
41651	Northern Indiana Public Service Co Overearnings investigation (Indiana UCC)
13605-U	Savannah Electric & Power Company - FCR (Georgia PSC)
14000-U	Georgia Power Company Rate Case/M&S Review (Georgia PSC)
13196-U	Savannah Electric & Power Company Natural Gas Procurement and Risk Management/Hedging Proposal, Docket No. 13196-U (Georgia PSC)
Non-Docketed	Georgia Power Company & Savannah Electric & Power FPR

Non-Docketed	Company Fuel Procurement Audit (Georgia PSC) Transition Costs of Nevada Vertically Integrated Utilities (US Department of Navy)
Application No. 99-01-016,	Post-Transition Ratemaking Mechanisms for the Electric Industry Restructuring (US Department of Navy)
Phase I 99-02-05 01-05-19-RE03	Connecticut Light & Power (Connecticut OCC) Yankee Gas Service Application for a Rate Increase, Phase I-2002-IERM (Connecticut OCC)
G-01551A-00-0309	Southwest Gas Corporation, Application to amend its rate Schedules (Arizona CC)
00-07-043	Pacific Gas & Electric Company Attrition & Application for a rate increase (California PUC)
97-12-020	
Phase II 01-10-10 13711-U 02-001	Pacific Gas & Electric Company Rate Case (California PUC) United Illuminating Company (Connecticut OCC) Georgia Power FCR (Georgia PSC) Verizon Delaware § 271(Delaware DPA)
02-BLVT-377-AUD	Blue Valley Telephone Company Audit/General Rate Investigation (Kansas CC)
02-S&TT-390-AUD	S&T Telephone Cooperative Audit/General Rate Investigation (Kansas CC)
01-SFLT-879-AUD	Sunflower Telephone Company Inc., Audit/General Rate Investigation (Kansas CC)
01-BSTT-878-AUD	Bluestem Telephone Company, Inc. Audit/General Rate Investigation (Kansas CC)
P404, 407, 520, 413 426, 427, 430, 421/ CI-00-712	Sherburne County Rural Telephone Company, dba as Connections, Etc. (Minnesota DOC)
U-01-85	ACS of Alaska, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-34	ACS of Anchorage, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-83	ACS of Fairbanks, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-87	ACS of the Northland, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
96-324, Phase II	Verizon Delaware, Inc. UNE Rate Filing (Delaware PSC)
03-WHST-503-AUD	Wheat State Telephone Company (Kansas CC)
04-GNBT-130-AUD	Golden Belt Telephone Association (Kansas CC)
Docket 6914	Shoreham Telephone Company, Inc. (Vermont BPU)

Line No.	Description	Reference	Per HECO (A)	Per DOD (B)	Difference (C)
1	Adjusted rate base at proposed rates	DOD-103	\$1,091,677	\$ 1,061,968	\$ (29,709)
2	Rate of return	DOD-105	9.11%	7.71%	
3	Net operating income required		\$ 99,452	\$ 81,878	\$ (17,574)
4	Adjusted net operating income	DOD-104	\$ 44,625	\$ 71,142	\$ 26,517
5	Net operating income deficiency		\$ 54,827	\$ 10,736	\$ (44,091)
6	Gross revenue conversion factor	DOD-102	1.798645	1.798645	
7	Revenue deficiency		\$ 98,614	\$ 19,310	\$ (79,304)

Notes and Source

Col.A: HECO-2301

Revenue Deficiency Components	DOD-102 Portion	Amount (\$000)
7.1 Uncollectibles	0.1290%	\$25
7.2 Taxes Other Than Income	8.8620%	\$1,711
7.3 State and Federal Income Tax	35.4116%	\$6,838
7.4 Net Operating Income	55.5974%	\$10,736
7.5 Totals	100.0000%	\$19,310

Line No.	Description	Reference	Adjustment Amount (A)	Multiplier (B)	Revenue Requirement Amount (C)
1	Revenue Requirement-per HECO Filing	DOD-101		Pre-Tax	\$ 98,614
2	Rate of Return Difference on HECO rate base Before Pro Forma Working Cash	DOD-103	\$ 1,104,785	Return Difference DOD-105 -2.51%	\$ (27,730)
3	Subtotal Revenue Requirement				<u>\$ 70,884</u>
	Rate Base Adjustments	Sub-Reference:	Reference:	Pre-Tax Return	
4	Net Plant in Service Update	DOD-107	\$ (7,694)	DOD-105 13.87%	\$ (1,067)
5	Other Rate Base Updates	DOD-108	\$ 5,261	13.87%	\$ 730
6	Property Held for Future Use	DOD-109	\$ (518)	13.87%	\$ (72)
7	Remove Net Pension Asset	DOD-110	\$ (50,309)	13.87%	\$ (6,978)
8	Unamortized HRS System Development Costs	DOD-111	\$ (369)	13.87%	\$ (51)
9	Cash Working Capital	DOD-112	\$ (6,726)	13.87%	\$ (933)
10	Fuel Inventory Placeholder	DOD-113	\$ 14,959	13.87%	\$ 2,075
11	Subtotal Rate Base Adjustments Before Pro Forma Working Cash		\$ (45,396)		\$ (6,296)
12	Change in Working Cash at Proposed Rates	DOD-103	\$ 15,687	16.38%	\$ 2,570
13	Adjusted Rate Base		<u>\$ (29,709)</u>		<u>\$ (3,726)</u>
14	Adjusted Net Operating Income - per HECO	DOD-101	\$ 44,625		
	Net Operating Income Adjustments	Sub-Reference:	Reference:	GRCF	
15	Other Operating Revenue	DOD-115	\$ 21	DOD-102 1.798645	\$ (38)
16	Remove DSM Costs	DOD-116	\$ 18,859	1.798645	\$ (33,921)
17	Standard Labor Rates and Test Year Overtime	DOD-117	\$ 161	1.798645	\$ (290)
18	Average Test Year Employees	DOD-118	\$ 2,040	1.798645	\$ (3,669)
19	Fuel Related Expense	DOD-119	\$ 411	1.798645	\$ (739)
20	Production Operations and Maintenance Expense	DOD-120	\$ 1,246	1.798645	\$ (2,241)
21	Customer Service Expense - Reorganization	DOD-121	\$ (309)	1.798645	\$ 556
22	Depreciation and Amortization Expense	DOD-122	\$ 810	1.798645	\$ (1,457)
23	Administrative and General Expense	DOD-123	\$ (276)	1.798645	\$ 496
24	Other Taxes SUTA	DOD-124	\$ 123	1.798645	\$ (221)
25	Income Taxes - Interest Synchronization	DOD-125	\$ 472	1.798645	\$ (849)
26	Electric Sales Revenue & Fuel Update Placeholder	DOD-126	\$ 2,959	1.798645	\$ (5,322)
27	Net Operating Income Adjustments		<u>\$ 26,517</u>		<u>\$ (47,695)</u>
28	Adjusted Net Operating Income		<u>\$ 71,142</u>		
29	Reconciled Revenue Requirement				\$ 19,463
30	Unreconciled Difference				\$ (153)
31	Recommended Revenue Requirement	DOD-101, page 1			<u>\$ 19,310</u>

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	<u>Reference</u>
1	Operating revenue increase	1.000000	
2	Uncollectibles	0.001290	HECO-WP-2301, p.11
3	Taxes other than income taxes	0.088620	Line 1.4 Below
4	Taxable income for ratemaking	0.910090	Line 1 - Line 2 - Line 3
5	Income taxes at composite rate	0.354116	38.91% x Line 4 HECO-WP-2301, pp.10 & 11
6	Net Operating Income	0.555974	Line 4 - Line 5
7	Gross revenue conversion factor	1.798645	Line 1 / Line 6
	<u>Taxes other than income taxes:</u>		
1.1	Public Service Commission taxes	0.058850	HECO-WP-2301, p.11
1.2	Public Utility Fees	0.005000	HECO-WP-2301, p.11
1.3	Franchise Royalty Taxes	0.024770	HECO-WP-2301, p.11
1.4	Taxes other than income taxes	0.088620	
	<u>Reciprocal of income tax rate</u>		
2.1	(1 - .38910 composite income tax rate)	0.6109	0.3891

Line No.	Description	HECO Proposed		DOD Adjustments		DOD Proposed	
		(A)		(B)		(C)	
INVESTMENT IN ASSETS SERVING CUSTOMERS							
1	Net Plant In Service	\$ 1,264,154	\$	(7,694)	\$	1,256,460	
2	Property Held for Future Use	599	\$	(518)	\$	81	
3	Fuel Inventory	28,742	\$	14,959	\$	43,701	
4	Materials & Supplies	9,984	\$	123	\$	10,107	
5	Unamortized Net SFAS 109 Regulatory Asset	51,451	\$	(239)	\$	51,212	
6	Prepaid Pension Asset	65,899	\$	(65,899)	\$	-	
7	Unamortized OPEB Regulatory Asset	9,764	\$	-	\$	9,764	
8	Unamortized System Development Costs	369	\$	(369)	\$	-	
FUNDS FROM NON-INVESTORS							
9	Unamortized CIAC	(150,713)	\$	770	\$	(149,943)	
10	Customer Advances	(1,357)	\$	(141)	\$	(1,498)	
11	Customer Deposits	(6,262)	\$	361	\$	(5,901)	
12	Accumulated Deferred Income Taxes	(153,315)	\$	20,129	\$	(133,186)	
13	Unamortized ITC	(15,762)	\$	-	\$	(15,762)	
14	Unamortized Gain on Sales	(850)	\$	(154)	\$	(1,004)	
15	OPEB Liability	(9,739)	\$	2	\$	(9,737)	
16	Working Cash (at present rates)	11,821	\$	(6,726)	\$	5,095	
17	Rate Base at Present Rates	1,104,785	\$	(45,396)	\$	1,059,389	
18	Working Cash (at proposed rates)	(13,108)	\$	15,687	\$	2,579	
19	Rate Base at Proposed Rates	1,091,677	\$	(29,709)	\$	1,061,968	

Notes and Source

Col.A: HECO-WP-2301

Col.B: DOD-106

Hawaiian Electric Company, Inc.
Adjusted Net Operating Income
(Thousands of Dollars)
Test Year Ending December 31, 2005

Exhibit DOD-104
Docket No. 04-0113
Page 1 of 1

Line No.	Description	Per HECO (A)	DOD Adjustments (B)	Per DOD (C)
1	Electric Sales Revenue	\$ 994,032	\$ 254,140	\$ 1,248,172
2	Other Operating Revenue	\$ 2,742	\$ -	\$ 2,742
3	Gain on Sale of Land	\$ 333	\$ 35	\$ 368
4	TOTAL OPERATING REVENUES	\$ 997,107	\$ 254,175	\$ 1,251,282
5	Fuel	\$ 292,704	\$ 156,267	\$ 448,971
6	Purchased Power	\$ 298,564	\$ 69,777	\$ 368,341
7	Production	\$ 55,041	\$ (3,602)	\$ 51,439
8	Transmission	\$ 8,087	\$ (135)	\$ 7,952
9	Distribution	\$ 20,132	\$ (186)	\$ 19,946
10	Customer Accounts	\$ 11,436	\$ (204)	\$ 11,232
11	Allowance for Uncollectibles	\$ 1,292	\$ -	\$ 1,292
12	Customer Service	\$ 33,458	\$ (30,638)	\$ 2,820
13	Administration and General	\$ 54,443	\$ (597)	\$ 53,846
14	Operation and Maintenance	\$ 775,157	\$ 190,682	\$ 965,839
15	Depreciation and Amortization	\$ 72,056	\$ (1,326)	\$ 70,730
16	Taxes Other Than Income	\$ 94,233	\$ 22,182	\$ 116,415
17	Interest on Customer Deposits	\$ 378	\$ -	\$ 378
18	Income Taxes	\$ 10,658	\$ 16,120	\$ 26,778
19	TOTAL OPERATING EXPENSES	\$ 952,482	\$ 227,658	\$ 1,180,140
20	NET OPERATING INCOME	\$ 44,625	\$ 26,517	\$ 71,142
21	AVERAGE RATE BASE	\$1,104,785	\$ (45,396)	\$ 1,059,389
22	RATE OF RETURN ON RATE BASE	4.04%		6.72%

Notes and Source

Col.A: HECO-2301 "Present Rates" column
Col.B: DOD-114
Col.C: Col.A + Col.B
Line 21: DOD-103 Line 17

Line No.	Description	Cost Rate (A)	Capital Ratio (B)	Weighted Cost (A) x (B) (C)	Pre-Tax Return (D)
Per HECO (HECO-2101)					
1	Short Term Debt	3.50%	3.47%	0.12%	0.22%
2	Long Term Debt	6.30%	36.85%	2.32%	4.17%
3	Hybrid Securities	7.55%	2.37%	0.18%	0.32%
4	Preferred Stock	5.54%	1.78%	0.10%	0.18%
5	Common Equity	11.50%	55.54%	6.39%	11.49%
6	Total		<u>100.01%</u>	<u>9.11%</u>	<u>16.38%</u>
Per DOD (Stephen G. Hill, DOD-215)					
7	Short Term Debt	3.50%	3.25%	0.11%	0.20%
8	Long Term Debt	6.25%	36.81%	2.30%	4.14%
9	Hybrid Securities	7.55%	2.37%	0.18%	0.32%
10	Preferred Stock	5.54%	1.78%	0.10%	0.18%
11	Common Equity	9.00%	55.79%	5.02%	9.03%
12	Total		<u>100.00%</u>	<u>7.71%</u>	<u>13.87%</u>
13	Difference			-1.40%	-2.51%
14	Weighted Cost of Debt		Sum of Lines 7-9	<u>2.59%</u>	

Notes

Col.D:	Pre-Tax Return computed using GRCF	GRCF	Reference
		<u>1.798645</u>	<u>DOD-102</u>

Line No.	Description	DOD Adjustments	Net Plant in Service Update DOD-107	Other Rate Base Updates DOD-108	Property Held for Future Use DOD-109	Remove Net Pension Asset DOD-110	Unamortized HRS System Development Costs DOD-111	Cash Working Capital DOD-112	Fuel Inventory Placeholder DOD-113
INVESTMENT IN ASSETS SERVING CUSTOMERS									
1	Net Plant in Service	\$ (7,694)	\$ (7,694)						
2	Property Held for Future Use	\$ (518)			\$ (518)				
3	Fuel Inventory	\$ 14,959							\$ 14,959
4	Materials & Supplies	\$ 123		\$ 123					
5	Unamortized Net SFAS 109 Regulatory Asset	\$ (239)		\$ (239)					
6	Prepaid Pension Asset	\$ (65,899)		\$ 12,892		\$ (78,791)			
7	Unamortized OPEB Regulatory Asset	\$ -							
8	Unamortized System Development Costs	\$ (369)					\$ (369)		
FUNDS FROM NON-INVESTORS									
9	Unamortized CIAC	\$ 770		\$ 770					
10	Customer Advances	\$ (141)		\$ (141)					
11	Customer Deposits	\$ 361		\$ 361					
12	Accumulated Deferred Income Taxes	\$ 20,129		\$ (8,353)		\$ 28,482			
13	Unamortized ITC	\$ -							
14	Unamortized Gain on Sales	\$ (154)		\$ (154)					
15	OPEB Liability	\$ 2		\$ 2					
16	Working Cash (at present rates)	\$ (6,726)						\$ (6,726)	
17	Rate Base at Present Rates	\$ (45,396)	\$ (7,694)	\$ 5,261	\$ (518)	\$ (50,309)	\$ (369)	\$ (6,726)	\$ 14,959
18	Working Cash (at proposed rates)	\$ 15,687						\$ 15,687	
19	Rate Base at Proposed Rates	\$ (29,709)	\$ (7,694)	\$ 5,261	\$ (518)	\$ (50,309)	\$ (369)	\$ 8,961	\$ 14,959

Notes and Source
 See referenced exhibit for each adjustment

Hawaiian Electric Company, Inc.
 Net Plant in Service Update
 (Thousands of Dollars)
 Test Year Ending December 31, 2005

Exhibit DOD-107
 Docket No. 04-0113
 Page 1 of 1

Line No.	Description	Amount	Reference
Net Plant in Service			
1	Per HECO filing	\$ 1,264,154	HECO-1902
2	Per Update	\$ 1,256,460	Note a
3	Adjustment	<u>\$ (7,694)</u>	Line 2 - Line 1

Notes and Source

(a) HECO's responses to CA-IR-96, DOD-IR-9-3, and DOD-IR-10-4

Line No.	Description	Per HECO Filing (A)	Updated Amount (B)	Adjustment (C)
1	Fuel Inventory	\$ 28,742	\$ 28,742 (a)	\$ -
2	Materials & Supplies	\$ 9,984	\$ 10,107	\$ 123
3	Unamortized Net SFAS 109 Regulatory Asset	\$ 51,451	\$ 51,212	\$ (239)
4	Prepaid Pension Asset	\$ 65,899	\$ 78,791	\$ 12,892
5	Unamortized OPEB Regulatory Asset	\$ 9,764	\$ 9,764	\$ -
6	Unamortized System Development Costs	\$ 369	\$ 369 (c)	\$ -
7	FUNDS FROM NON-INVESTORS			
8	Unamortized CIAC	\$ (150,713)	\$ (149,943)	\$ 770
9	Customer Advances	\$ (1,357)	\$ (1,498)	\$ (141)
10	Customer Deposits	\$ (6,262)	\$ (5,901)	\$ 361
11	Accumulated Deferred Income Taxes			\$ (8,353) (b)
12	Unamortized ITC	\$ (15,762)	\$ (15,762) (a)	\$ -
13	Unamortized Gain on Sales	\$ (850)	\$ (1,004)	\$ (154)
14	OPEB Liability	\$ (9,739)	\$ (9,737)	\$ 2
15	Totals and net adjustment to rate base	\$ (18,474)	\$ (4,860)	\$ 5,261

Notes and Source

- Col.A: HECO-1901
 Col.B: HECO's response to DOD-IR-10-4 unless otherwise noted
 Col.C: Col.B - Col.A unless otherwise noted
 (a) Not updated in this adjustment. See DOD-113 for a "placeholder" adjustment to 2005 Fuel Inventory
 (b) Updated actual amount for 12/31/04 used per HECO response to DOD-IR-4-4 and DOD-IR-10-4; HECO failed to confirm updated 12/31/05 projection in DOD-IR-10-4 and failed to provide an updated amount for average 2005 in its response to that IR.
 Actual 12/31/04 \$ (162,314) DOD-IR-10-4
 Estimated 12/31/04 from HECO filing \$ (153,961) HECO-1901
 Adjustment to update for actual 12/31/04 \$ (8,353)
 (c) Unamortized System Development Costs are removed in DOD-111

Line No.	Description	Amount	Reference
Plant Held for Future Use			
1	Per HECO filing	\$ 599	HECO-1806
2	Recommended allowance	\$ 81	Note a
3	Adjustment	<u><u>\$ (518)</u></u>	Line 2 - Line 1

Notes and Source

- Line 1: HECO-1806 and DOD-IR-10-4
 Line 2: HECO-1806 (Waianae Substation, acquired in 1997)
 Line 3: PHFFU purchased in 1991 and held for more than 10 years is excluded from rate base

Hawaiian Electric Company, Inc.
 Remove Net Pension Asset
 (Thousands of Dollars)
 Test Year Ending December 31, 2005

Exhibit DOD-110
 Docket No. 04-0113
 Page 1 of 2

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	<u>Reference</u>
Net Pension Asset			
1	Amount per HECO update	\$ (78,791)	DOD-IR-10-4
2	Related Accum Def Inc Taxes	\$ 28,482	Note a
3	Net Adjustment	<u>\$ (50,309)</u>	

Notes and Source

(a) Per HECO's response to DOD-IR-4-4

<u>ADIT</u>	<u>12/31/2004</u>	<u>12/31/2005</u>	<u>Average 2005</u>
State	\$ 4,544	\$ 4,268	
Federal	\$ 24,831	\$ 23,322	
Total	<u>\$ 29,375</u>	<u>\$ 27,590</u>	<u>\$ 28,482</u>

Test Year Ending December 31, 2005

Line No.	Year	Beginning Pension Asset (A)	FAS 87 Accrual (B)	Trust Contribution (C)	Ending Pension Asset (D)	Average Pension Asset (E)	Included In HECO Rates (F)
1	1987	\$ 480,499	\$ 9,216,777	\$ 8,736,278	\$ -	\$ 240,250	
2	1988	\$ -	\$ 8,307,882	\$ 8,307,882	\$ -	\$ -	
3	1989	\$ -	\$ 9,007,061	\$ 9,007,061	\$ -	\$ -	
4	1990	\$ -	\$ 9,739,662	\$ 9,739,662	\$ -	\$ -	
5	1991	\$ -	\$ 10,617,695	\$ 10,617,695	\$ -	\$ -	
6	1992	\$ -	\$ 11,382,007	\$ 11,382,007	\$ -	\$ -	
7	1993	\$ -	\$ 10,939,516	\$ 10,939,516	\$ -	\$ -	
8	1994	\$ -	\$ 10,924,690	\$ 10,924,690	\$ -	\$ -	
9	1995	\$ -	\$ 6,408,000	\$ 9,058,124	\$ 2,650,124	\$ 1,325,062	\$ 10,604,000
10	1996	\$ 2,650,124	\$ 8,380,584	\$ 6,971,824	\$ 1,241,364	\$ 1,945,744	\$ 10,604,000
11	1997	\$ 1,241,364	\$ 7,117,179	\$ 5,876,355	\$ 540	\$ 620,952	\$ 10,604,000
12	1998	\$ 540	\$ 1,870,595	\$ 2,206,034	\$ 335,979	\$ 168,260	\$ 10,604,000
13	1999	\$ 335,979	\$ (1,073,259)	\$ -	\$ 1,409,238	\$ 872,609	\$ 10,604,000
14	2000	\$ 1,409,238	\$ (19,322,692)	\$ -	\$ 20,731,930	\$ 11,070,584	\$ 10,604,000
15	2001	\$ 20,731,930	\$ (20,465,117)	\$ -	\$ 41,197,047	\$ 30,964,489	\$ 10,604,000
16	2002	\$ 41,197,047	\$ (15,655,436)	\$ -	\$ 56,852,483	\$ 49,024,765	\$ 10,604,000
17	2003	\$ 56,852,483	\$ 5,894,495	\$ 13,394,248	\$ 64,352,236	\$ 60,602,360	\$ 10,604,000
18	2004	\$ 64,352,236	\$ (1,546,921)	\$ 15,186,494	\$ 81,085,651	\$ 72,718,944	\$ 10,604,000
19	2005	\$ 81,085,651	\$ 4,416,000	\$ -	\$ 76,669,651	\$ 78,877,651	\$ 10,604,000
20	Totals	\$ 56,158,718	\$ 132,347,870	\$ 132,347,870	\$ 76,189,152	\$ 106,040,000	\$ 106,040,000
21	1996-2005 Lines 10-19	\$ (30,384,572)	\$ 43,634,955	\$ 43,634,955	\$ 74,019,527	\$ 136,424,572	\$ 43,634,955
22	Estimated Net Amount "Provided" By Ratepayers, 1996-2005						\$ 92,789,617
23	"Provided" by Ratepayers (amounts paid less HECO's recorded expense)						\$ 136,424,572 (a) - (b)
24	"Provided" by HECO (funding contributions)						\$ 43,634,955 (c)
24	Net amount "provided" by Ratepayers						\$ 92,789,617

Notes and Source
 CA-IR-337

Col.B: FAS 87 accrual is referred to as "net periodic pension cost" or "NPPC" by HECO.
 Col.F: CA-IR-355

Line 22 is the estimated amount paid by ratepayers less the expense recorded by HECO.
 Comparison of Pension Asset from DOD-IR-10-4 with Calculated Amount per Col.E, Line 19:
 HECO 2005 average pension asset:

Per Col.E, line 19	\$ 78,877,651
Per DOD-IR-10-4	\$ 78,791,000
Unreconciled difference	\$ 86,651
	0.11%

Hawaiian Electric Company, Inc.
 Unamortized HRS System Development Costs
 (Thousands of Dollars)
 Test Year Ending December 31, 2005

Exhibit DOD-111
 Docket No. 04-0113
 Page 1 of 1

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	<u>Reference</u>
1	Unamortized HRS Dev Cost	\$ <u>(369)</u>	DOD-IR-9-2(k) and below

Notes and Source

<u>Item</u>	<u>12/31/2004</u>	<u>12/31/2005</u>	<u>Average 2005</u>
HRS	\$ -	\$ 737	\$ <u>369</u>

HECO-1906 & Note a

(a) CA-IR-352 & CA-IR-661.

Line No.	Description	Revenue Collection Lag (Days) (A)	Payment Lag (Days) (B)	Net Collection Lag (Days) (C)	Annual Amount (See Below) (D)	Average Daily Amount - Present (D) / 365 (E)	Working Cash Required (Provided) under Present Rates (C) x (E) (F)	Average Daily Amount - Proposed (D) / 365 (G)	Working Cash Required (Provided) under Proposed Rates (C) x (G) (H)
ITEMS REQUIRING WORKING CASH:									
1	Fuel Purchases	37	16	21	\$ 443,901	\$ 1,216	\$ 25,536	\$ 1,216	\$ 25,536
2	O&M Labor	37	11	26	\$ 78,106	\$ 214	\$ 5,564	\$ 214	\$ 5,564
3	O&M Nonlabor	37	31	6	\$ 83,564	\$ 229	\$ 1,374	\$ 229	\$ 1,374
ITEMS PROVIDING WORKING CASH:									
4	Purchased Power	37	39	(2)	\$ 368,341	\$ 1,009	\$ (2,018)	\$ 1,009	\$ (2,018)
5	Revenue Taxes - Present Rates	37	90	(53)	\$ 111,043	\$ 304	\$ (16,112)	\$	\$
6	Revenue Taxes - Proposed Rates	37	90	(53)	\$ 112,754	\$	\$	\$ 309	\$ (16,377)
7	Income Taxes - Present Rates	37	162	(125)	\$ 26,878	\$ 74	\$ (9,250)	\$	\$
8	Income Taxes - Proposed Rates	37	162	(125)	\$ 33,717	\$	\$	\$ 92	\$ (11,500)
9	WORKING CASH ALLOWANCE								
10	CHANGE IN WORKING CASH								
11	HECO PROPOSED WORKING CASH / CHANGE IN WORKING CASH AMOUNTS (HECO-1907)								
12	ADJUSTMENT TO WORKING CASH AND CHANGE IN WORKING CASH								
							\$ 5,094	Change:	\$ (2,515)
							\$ 11,820		\$ (24,928)
							\$ (6,726)		\$ 22,413

Derivation of Annual Expense Amounts for Column D:

Component	Amounts per		Adjusted Amounts (L)	Posted To Col.D	Revenue Incr. Amounts DOD-101 (M)	Amounts At Proposed Rates (N)	To Col.D
	HECO-1907 (I)	Adjustments (J)					
13 Fuel Expense	\$ 287,634	\$ 156,267	\$ 443,901	Line 1			
14 O&M Labor	\$ 78,106	\$ (3,594)	\$ 74,512	Line 2			
15 O&M Non-Labor	\$ 115,332	\$ (31,768)	\$ 83,564	Line 3			
16 Purchased Power	\$ 298,564	\$ 69,777	\$ 368,341	Line 4			
17 Revenue Tax	\$ 88,463	\$ 22,580	\$ 111,043	Line 5	\$ 1,711	\$ 112,754	Line 6
18 Income Tax	\$ 10,759	\$ 16,120	\$ 26,879	Line 7	\$ 6,838	\$ 33,717	Line 8
19 Total O&M Adjustments	\$	\$ (35,362)		Lines 7-13			
20 O&M Labor Adjustments (DOD-114, Line 14, portions indicated)	\$	\$ (3,594)	\$ (264)	DOD-117			DOD-121
21 O&M Non-Labor	\$	\$ (31,768)	\$ (2,561)	DOD-118			370

Col's A&B: CA witness Michael Brosch's testimony CA T-1 at pages 106-112; Exhibit CA-101, Schedule B-9; and CA-WP-101-B9
 Col.B: HECO's response to DOD-IR-9-8 provided additional calculations supporting the 11-day lag for the payroll lag on line 11.

Line No.	Description	Amount	Reference
Fuel Inventory			
1	Per HECO Filing (not updated)	\$ 28,742	HECO-408; HECO-1901
2	Placeholder for update	\$ 43,701	CA-308; CA-101, Sch B 8
3	Placeholder adjustment	<u>\$ 14,959</u>	
Per HECO Filing (HECO-408)			
	Component	Average Barrels	Fuel Oil Inventory
4	Residual Fuel Oil	789,909	\$ 27,487
5	Diesel Oil	21,768	\$ 1,254
6	Total Inventory		<u>\$ 28,741 (b)</u>
Per HECO May 5, 2005 Update, Attachment 1B, Prices			
7	Residual Fuel Oil	789,909	\$ 42,445
8	Diesel Oil (update)	26,009 (c)	\$ 2,066
9	Total Inventory		<u>\$ 44,511 (a)</u>
10	Change if HECO's quantities are used with HECO's updated prices		<u>\$ 15,770 (a) - (b)</u>

Notes

(c) HECO updated quantity for diesel oil from DOD-IR-9-4 and DOD-IR-9-5

Line No.	Description	DOD Adjustments	Other Operating Revenue DOD-115	Remove DSM Costs DOD-116	Standard Labor Rates and Test Year Overline DOD-117	Average Test Year Employees DOD-118	Fuel Related Expenses DOD-119	Production Operations and Maintenance Expenses DOD-120	Customer Service Expenses - Recognition DOD-121	Depreciation and Amortization Expense DOD-122	Administrative and General Expenses DOD-123	Other Taxes SUTA DOD-124	Income Taxes - Interest Synchronization DOD-125	Electric Sales Revenue and Fuel Update Pledges DOD-126
1	Electric Sales Revenue	\$ 254,140												\$ 254,140
2	Other Operating Revenue	\$ -	\$ 35											\$ -
3	Gain on Sale of Land	\$ 35	\$ 35											\$ 35
4	TOTAL OPERATING REVENUES	\$ 254,175	\$ 35											\$ 254,140
5	Fuel	\$ 158,287					\$ (872)							\$ 158,939
6	Purchased Power	\$ 68,777												\$ 68,777
7	Production	\$ (3,802)				\$ (1,563)		\$ (2,039)						\$ -
8	Transmission	\$ (135)				\$ (135)								\$ -
9	Distribution	\$ (166)				\$ (166)								\$ -
10	Customer Accounts	\$ (294)				\$ (204)								\$ -
11	Allowance for Uncollectibles	\$ -												\$ -
12	Customer Service	\$ (30,698)				\$ (272)		\$ 505						\$ -
13	Administration and General	\$ (597)				\$ (754)								\$ -
14	Operation and Maintenance	\$ 190,662				\$ (3,144)	\$ (672)	\$ (2,039)	\$ 505	\$ (1,328)	\$ 451			\$ 228,716
15	Depreciation and Amortization	\$ (1,328)												\$ -
16	Interest on Other Than Income	\$ 22,192				\$ (198)								\$ (202)
17	Interest on Customer Deposits	\$ -												\$ -
18	PRE-TAX OPERATING EXPENSES	\$ 211,538				\$ (3,340)	\$ (872)	\$ (2,039)	\$ 505	\$ (1,328)	\$ 451			\$ 249,295
19	PRE-TAX OPERATING INCOME	\$ 42,637				\$ 3,340	\$ 872	\$ 2,039	\$ (505)	\$ 1,328	\$ (451)			\$ 4,844
20	Income Taxes	\$ 16,120				\$ 1,300	\$ 261	\$ 1,965	\$ (196)	\$ 516	\$ (175)			\$ (472)
21	TOTAL OPERATING EXPENSES	\$ 227,658				\$ (2,040)	\$ (411)	\$ (1,248)	\$ 309	\$ (610)	\$ 276			\$ (472)
22	OPERATING INCOME	\$ 26,517				\$ 2,040	\$ 411	\$ 1,248	\$ (309)	\$ 810	\$ (276)			\$ 472

Notes and Sources
 Line 20: Combined tax rate for calculating impact on income taxes 38.91% DOD-102 and HECO-WP-2301, pp. 10 & 11

Hawaiian Electric Company, Inc.
 Other Operating Revenue
 (Thousands of Dollars)
 Test Year Ending December 31, 2005

Exhibit DOD-115
 Docket No. 04-0113
 Page 1 of 1

Line No.	Description	Amount	Reference
Other Operating Revenues			
1	Iolani Court Plaza	\$ 34	CA-IR-372 and below
2	Other net changes	\$ 1	DOD-IR-9-2
3	Adjustment to Increase Other Operating Revenue	\$ <u>35</u>	DOD-IR-9-2, page 8

Notes and Source

Results of Sales of Iolani Court Plaza per HECO's response to CA-IR-372

	Dollars
4 Unit #1009	\$ 109,835.26
5 Unit #1700	\$ 51,467.84
6 Unit #2706	\$ 50,023.64
7 Unit #3109	\$ 121,909.26
8 Total Gain on Sale of Iolani Court Plaza	\$ 333,236.00
9 Total Gain Amortized Over Five Years	5 years
10 Revised Amortization	\$ 66,647 DOD-IR-9-2
11 Amount reflected in HECO filing	\$ 32,261
12 Increase	\$ <u>34,386</u>

Hawaiian Electric Company, Inc.
 Remove DSM Costs
 (Thousands of Dollars)
 Test Year Ending December 31, 2005

Exhibit DOD-116
 Docket No. 04-0113
 Page 1 of 1

Line No.	Description	Amount	Reference
Remove DSM Costs in HECO Filing			
1	DSM Programs Incremental Non-Labor	\$ (28,280)	DOD-IR-9-2 page 9
2	DSM Programs Incremental Labor	\$ (1,139)	DOD-IR-9-2 page 9
3	HECO identified adjustment to remove incremental DSM costs	\$ (29,419)	DOD-IR-9-2(g)
4	Other DSM costs HECO proposes in base rates	\$ (834)	Note (a)
5	Total DSM costs identified in HECO's 5/5/05 "update"	\$ (30,253)	Note (a)
6	Other incremental Integrated Resource Planning Costs	\$ (618)	Note (b)
7	Total adjustment to remove DSM and IRP Costs	\$ (30,871)	

Notes

- (a) HECO's 5/5/05 "update" letter, Attachment 4, pages 1 and 2.
- (b) HECO-1027 and HECO-1029

Hawaiian Electric Company, Inc.
 Standard Labor Rates and Test Year Overtime
 (Thousands of Dollars)
 Test Year Ending December 31, 2005

Exhibit DOD-117
 Docket No. 04-0113
 Page 1 of 1

Line No.	Description	Amount	Reference
Estimated Excess Overtime Pay Included In 2005 Test Year Expense Resulting From Using 2003 as Base for Developing Standard Labor Rates			
1	Direct to O&M Expense	\$ 220,388	DOD-IR-9-18, page 6
2	To O&M Expense through Clearing Accts.	\$ 25,250	DOD-IR-9-18, page 8
3	Total test year payroll expense impact	<u>\$ 245,638</u>	DOD-IR-9-18, page 8
4	Adjustment to payroll expense	\$ (245,638)	
5	Adjustment to payroll taxes	\$ (18,791)	7.65%
6	Total adjustment to expense	<u>\$ (264,429)</u>	
7	Decrease Stated in Thousands of Dollars	<u>\$ (264)</u>	

Notes and Source

DOD-IR-9-18

CA-IR-76

HECO May 5, 2005 Letter "HECO 2005 Test Year Rate Case Updates," page 4

Hawaiian Electric Company, Inc.
Average Test Year Employees

Exhibit DOD-118
Docket No. 04-0113
Page 1 of 2

Test Year Ending December 31, 2005

Line No.	Account	Description	Estimated Total "Open" Positions In HECO Filing (A)	Adjustment Amount (B)	Adjustment Amount In \$000 (C)
1	500 - 514	Production Expense	\$ 3,125,421	\$ (1,562,710)	\$ (1,563)
2	561 - 571	Transmission Expense	\$ 269,133	\$ (134,566)	\$ (135)
3	581 - 598	Distribution Expense	\$ 371,840	\$ (185,920)	\$ (186)
4	901 - 903	Customer Accounts Expense	\$ 407,404	\$ (203,702)	\$ (204)
5	910	Customer Service Expense	\$ 544,588	\$ (272,294)	\$ (272)
6	920 - 9302	A&G Expense	\$ 401,596	\$ (200,798)	\$ (201)
7		Payroll Expense	\$ 5,119,981	\$ (2,559,990)	\$ (2,561)
8	926	Employee Benefits	\$ 1,166,208	\$ (583,104)	\$ (583)
9	107 - 426	Capital and Non-O&M Expense	\$ 2,059,713		
10		Total Open Positions per page 2	\$ 8,345,902		
11		Payroll tax expense	7.65%	\$ (195,839)	\$ (196)
12		Total Adjustment to Expense		\$ (3,338,933)	
13		Decrease Stated in Thousands of Dollars		\$ (3,339)	\$ (3,340)

Notes and Source

Col.A: DOD-IR-8-8, See summary on DOD-118, page 2 of 2

Col.B: One-half of Col.A expense amounts

Line 11: Payroll tax rate x Payroll Expense adjustment on line 7

Col.C: Col.B / 1,000

Line No.	NARUC	Construction & Maint	Engineering	Project Mgmt	Systems Ops	General Acctg	Info Tech & Svcs	Mgmt Acctg	Educ & Cons Affairs	Regulatory Affairs	Production	Customer Installations	Energy Services	Customer Service	TOTAL
1	107	61,532.00	70,591.86	53,127.63	200,851.19						228,528.32	53,008.11			887,638.11
2	108	12,715.00	122.03		1,658.86						52,328.02	3,460.00			70,283.91
3	163		28,483.33												28,483.33
4	184	9,283.00	257,431.84	87,620.42	85,218.50		86,440.00	12,655.99	5,580.96		413,245.98	212,081.04			1,171,457.73
5	185														6,881.05
6	186	2,089.00	12,009.47	13,283.43	24,922.18		336.00	3,319.60			41,482.56	6,881.05			105,492.28
7	417				833.58										833.58
8	428						2,684.00								2,684.00
9	500						528.00								86,496.97
10	501						2,460.00								298,870.08
11	502						276.00								192,477.41
12	505														79,446.28
13	506														98,683.88
14	510														4,250.77
15	511														221,118.83
16	512						420.00								221,284.68
17	513						252.00								1,286,451.63
18	514						10,704.00								950,723.05
19	561	169.00			1,507.25										385,098.44
20	562	303.00			180,451.04										160,451.04
21	563	175.00			275.73		72.00								375.00
22	564														175.00
23	566														13,393.56
24	570														74,207.33
25	571														96.00
26	581														165,914.89
27	582	7,371.00			165,710.69		204.00								9,718.68
28	583	13,743.00			2,239.68		108.00								13,851.00
29	584	7,181.00					96.00					2,661.00			9,938.00
30	586	987.00					2,184.00					2,661.00			5,812.00
31	588	25,289.00			41,444.21		19,932.00								95,035.10
32	592				24,550.18		80.00								24,610.18
33	593	7,679.00			53.21		168.00								7,900.21
34	594	27,429.00					168.00								27,597.00
35	595	4,284.00			3,579.74		2,064.00								7,863.74
36	598	1,535.00					18,680.00								3,599.00
37	901						1,080.00								18,660.00
38	902						4,944.00								1,080.00
39	903						7,864.00								382,720.00
40	910	27,105.58	144.00	1,613.59	153.28		10,721.61		42,221.60						544,687.66
41	920	18,427.77		3,357.00			103,966.15								286,868.92
42	921						81,492.00								81,492.00
43	924						876.00								876.00
44	925						5,706.00								9,253.00
45	926	13,682.90	19,078.00	1,344.67	108,867.76	15,468.84	49,981.00	27,349.77	13,806.72	29,786.00	649,915.26	3,419.72	111,924.00	121,703.68	1,166,208.12
46	9302	11,760.27					1,584.00		2,941.28						23,106.55
47		79,006.56	205,080.00	384,034.75	929,825.35	79,262.24	321,657.00	188,013.12	64,550.56	127,110.00	4,472,705.35	299,633.64	566,668.00	504,423.68	8,345,901.73

Hawaiian Electric Company, Inc.
 Fuel Related Expense
 (Thousands of Dollars)
 Test Year Ending December 31, 2005

Exhibit DOD-119
 Docket No. 04-0113
 Page 1 of 1

Line No.	Description	Amount	Reference
Fuel Related Expense			
1	Corrected	\$ 3,882	
2	HECO filing	\$ 4,554	
3	Adjustment	\$ <u>(672)</u>	DOD-IR-9-2(b)

Notes and Source
 DOD-IR-9-2(b) & (c)
 DOD-IR-6-9(a)
 CA-IR-132

Hawaiian Electric Company, Inc.
 Production Operations and Maintenance Expense
 (Thousands of Dollars)
 Test Year Ending December 31, 2005

Exhibit DOD-120
 Docket No. 04-0113
 Page 1 of 1

Line No.	Description	Amount	Reference
Adjustments			
1	Non-labor CHP	\$ (219,851)	DOD-IR-9-2(d), CA-IR-641
2	Fuel expense for utility-owned CHP	\$ (838,000)	DOD-IR-9-2(e), DOD-IR-9-14
3	Sun Power for Schools	\$ (75,000)	DOD-IR-9-2(f), CA-IR-641
4	Lower Kahe Station water charges	\$ (100,000)	DOD-IR-9-2(f), CA-IR-664
5	Tolling arrangement study	\$ (75,000)	DOD-IR-9-2(f), DOD-IR-6-3
6	Kahe 7 rescheduled amortization	\$ (731,250)	Note (a), line 12
7	TOTAL	<u>\$ (2,039,101)</u>	
8	Decrease Stated in Thousands of Dollars	<u>\$ (2,039)</u>	

Notes

(a)	Kahe 7 rescheduled amortization:		
9	Reflected in HECO's filing	\$ 900,000	CA-IR-2, CA-IR-184
10	Remaining balance at 12/31/05	\$ 675,000	DOD-IR-6-12
11	Rescheduled amortization over 4 years, annual amortization allowance	\$ 168,750	Line 10 / 4 years
12	Adjustment for rescheduled amortization	<u>\$ (731,250)</u>	Line 11 - Line 9

Hawaiian Electric Company, Inc.
 Customer Service Expense - Reorganization
 (Thousands of Dollars)
 Test Year Ending December 31, 2005

Exhibit DOD-121
 Docket No. 04-0113
 Page 1 of 1

Line No.	Description	Amount	Reference
	Customer Service Reorganization		
1	Direct charges	\$ 370,292	HECO-1001 & CA-IR-78
2	On-costs	\$ 134,368	HECO-1001 & CA-IR-78
3	Customer Service Reorganization	<u>\$ 504,660</u>	
4	Increase in Thousands of Dollars	<u>\$ 505</u>	

Line No.	Description	Amount	Reference
Depreciation Adjustments			
1	Depreciation Accrual	\$ (1,394)	DOD-IR-9-2, page 11, Col.H, Line 1
2	Depreciation on Vehicles	\$ 36	DOD-IR-9-2, page 11, Col.H, Line 3
3	Amortization of CIAC	\$ 26	DOD-IR-9-2, page 11, Col.H, Line 4
4	Amortization of Federal ITC		DOD-IR-9-2, page 11, Col.H, Line 5
5	Amortization of SFAS 109 asset	\$ 6	DOD-IR-9-2, page 11, Col.H, Line 6
6	Adjustment	<u>\$ (1,326)</u>	

Notes and Source

DOD-IR-9-2(q) and (r)

Note: HECO's response to DOD-IR-9-2(s) indicates that HECO proposes to add \$192,685 for amortization of the King Street Lease; DOD does not agree with this HECO proposal

Line No.	Description	Amount	Reference
Adjustments to A&G Expense			
1	HR Suites Software Cost	\$ (184)	DOD-IR-9-2(k)
2	HEI Charges to HECO	\$ 95	DOD-IR-9-2(l)
3	Audit and Sarbanes-Oxley Expense	\$ 381	DOD-IR-9-2(m)
4	Research and Development	\$ (96)	DOD-IR-9-2(n)
5	Regulatory Commission Expense	\$ (9)	Note (a)
6	Employee Benefits	\$ 264	Note (b)
7	Total	<u>\$ 451</u>	

Notes and Source

- (a) Regulatory Commission Expense
 Increase per HECO \$ 129 DOD-IR-9-2(j)
 Net adjustment per CA \$ (9) CA-101, Sch C-18; CA T-2, pp 61-71
 Amount reflected in adjustment \$ (9)
- (b) DOD-IR-9-2(o) and (p) - HECO revised A&G estimate for employee benefits provided by letter to CA and DOD, filed 6/15/05, in Attachment 8.
 HECO final update \$ 16,107 Note (b-1)
 HECO original estimate \$ 15,843 HECO-1502
 Net change \$ 264 Note (b-1)
- (b-1) HECO 6/15/05 update, Attachment 8, page 1 of 49, line 19, Cols (k) and (l), respectively

Hawaiian Electric Company, Inc.
Other Taxes SUTA
(Thousands of Dollars)
Test Year Ending December 31, 2005

Exhibit DOD-124
Docket No. 04-0113
Page 1 of 1

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	<u>Reference</u>
1	Remove SUTA	\$ <u>(202)</u>	DOD-IR-9-2(t)

Hawaiian Electric Company, Inc.
 Income Taxes - Interest Synchronization
 (Thousands of Dollars)
 Test Year Ending December 31, 2005

Exhibit DOD-125
 Docket No. 04-0113
 Page 1 of 1

Line No.	Description	Amount	Reference
1	Adjusted Rate Base	\$ 1,059,389	DOD-103, Line 17
2	Weighted Cost of Debt	2.59%	DOD-105
3	Synchronized Interest Expense	<u>\$ 27,438</u>	Line 1 x Line 2
4	HECO "As Filed" Interest Expense	<u>\$ 26,224</u>	HECO-1702 & HECO-WP-1702
5	Net Adjustment to Interest Expense	<u>\$ 1,214</u>	
6	Combined State/Federal Tax Rate	<u>38.91%</u>	DOD-102
7	Interest Synchronization Adjustment, Reduction to Income Tax Expense	<u><u>\$ (472)</u></u>	

Line No.	Description	Amount	Reference
Electric Sales Revenue			
1	Sales Volume Update	\$ 1,662	CA-101, Sch C-1
2	Rate Rider Discount	\$ 135	CA-101, Sch C-2
3	Schedule PP Power Factor	\$ 715	CA-101, Sch C-3
4	ECA Revenues	\$ 251,628	CA-101, Sch C-4
5	Subtotal Revenues	<u>\$ 254,140</u>	
Fuel and Purchased Power Expense			
6	Fuel Expense	\$ 156,939	CA-101, Sch C-4
7	Purchased Power Expense	\$ 69,777	CA-101, Sch C-4
8	Subtotal Fuel and Power Expense	<u>\$ 226,716</u>	
Revenue Taxes			
9	Sales Volume Update	\$ 148	CA-101, Sch C-1
10	Rate Rider Discount	\$ 12	CA-101, Sch C-2
11	Schedule PP Power Factor	\$ 63	CA-101, Sch C-3
12	ECA Revenues	\$ 22,357	CA-101, Sch C-4
13	Subtotal Revenue Taxes	<u>\$ 22,580</u>	

Notes and Source

HECO did not provide requested quantification of impacts on electric sales revenue and fuel and power expenses with its updates. The CA's filing included estimates of these impacts on test year revenue and expense, and is therefore being reflected as a placeholder for these adjustments

CERTIFICATE OF SERVICE

I hereby certify that one copy of the foregoing TESTIMONY OF RALPH C. SMITH, CPA 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).

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DATED: Honolulu, Hawaii, July 6, 2005


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