BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the matter of the application of CITIZENS UTILITIES COMPANY, KAUAI ELECTRIC DIVISION For Certain Accounting Authority pursuant to Hawaii Revised Statutes Section 269-16(b)	DOCKET NO. 7517

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STIPULATION

L. RUSSELL MITTEN, ESQ.
Citizens Utilities Company
3 High Ridge Park
Stamford, CT 06905

ALAN M. OSHIMA, ESQ.
MICHAEL H. LAU, ESQ.
Davies Pacific Center
841 Bishop Street
Suite 400
Honolulu, Hawaii 96813

LAWRENCE M. REIFURTH, ESQ.
Department of the Attorney General
425 Queen Street
3rd Floor
Honolulu, HI 96813

MAUREEN C. LINDSEY, ESQ.
Naval Facilities Engineering Command
200 Stovall Street (Room 10S12)
Alexandria, VA 22332-2300

DAVID COKER, ESQ.
ABIGAIL OGAWA, ESQ.
Navy Public Works Center
Pearl Harbor, HI 96860-5470

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WHEREAS, Applicant CITIZENS UTILITIES COMPANY, KAUAI ELECTRIC DIVISION ("KE"), the DIVISION OF CONSUMER ADVOCACY ("CA"), and the DEPARTMENT OF DEFENSE ("DOD") are all of the parties in this proceeding;

WHEREAS, on September 11, 1992, Hurricane Iniki destroyed, among other KE plant and equipment, approximately 32% of KE's transmission system and between 30% and 35% of KE's distribution system on the Island of Kauai.

WHEREAS, KE currently estimates that the total cost of the restoration of its plant to provide service to its customers on the Island of Kauai will be more than $40,000,000;

WHEREAS, KE represents that the funds required for this restoration are currently being provided by Citizens Utilities Company ("Citizens") from its equity sources;

WHEREAS, Citizens and KE are continuing to explore sources of grants and/or low-interest loans for the rebuilding effort;

WHEREAS, as a result of the destruction caused by Hurricane Iniki, KE has also lost significant amounts of revenues and will incur expenses beyond those levels normally included in operations at KE;

WHEREAS, given the level of island-wide destruction to KE's customers, KE reasonably believes that the lower revenue collections will continue for several years;

WHEREAS, the unusually large investment required to replace plant destroyed by Hurricane Iniki, coupled with the significant drop in sales and increased expenses from depreciation expenses and customer service operations, would normally cause KE to file general and temporary general rate increase applications immediately;

WHEREAS, absent a specific legislative action or Commission order, KE's revenue requirement increase may be borne only by customers on the Island of Kauai;

WHEREAS, the economy of the Island of Kauai and KE's customers would be better served if such rate increase applications could be deferred for a few years after Hurricane Iniki; and

WHEREAS, the parties hereto have thoroughly reviewed the variances from KE's normal accounting practices for which KE seeks approval from the Commission in this docket and are willing to have certain accounting practices modified pursuant to an order of the Commission;

NOW, THEREFORE, the parties hereby stipulate and agree that the Commission should enter an order authorizing and directing KE as follows:

1. Restoration Plant.

a. Accrue an allowance for funds used during construction ("AFUDC"), on the cost of the utility plant installed to replace plant damaged as a result of Hurricane Iniki (the "Restoration Plant") minus the net book value of the destroyed plant,[1] from the in-service date for such new plant until the earliest of nine months after the date KE's next general rate increase application is filed (the "Deferred Rate Case"), the date new interim rates are effective or the date new permanent rates are effective in that case.

b. Such AFUDC will be utilized in the determination of new rates in the Deferred Rate Case, subject only to the Commission's determination of the specific amount of AFUDC that results from actual Restoration Plant construction. The parties in the Deferred Rate Case, may challenge any portion of the Restoration Plant and the resulting AFUDC accrual for prudency.

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1 The net book value of the KE plant destroyed by Hurricane Iniki will be calculated using the original cost minus accumulated depreciation as of August 31, 1992. That net destroyed plant will not earn AFUDC during this period. Whether and how KE will earn on that net destroyed plant or recover the cost of that net destroyed plant will be left for determination by the Commission in KE's next general rate increase case.

c. Restoration Plant shall include:

(i) all plant installed as a result of Hurricane Iniki in 1992, which will be generally described and confirmed by KE in writing to not include any significant project costs in excess of that necessary to restore general service, and

(ii) plant installed in 1993 and 1994 which is attributable to Hurricane Iniki[2] and which is included in a listing submitted by KE to the Commission, CA and DOD every six months, within 60 days after June 30 and December 31, of 1993 and 1994. Those lists will include by budget number and improvement order number, all Restoration Plant which KE has installed in that period, and cumulative since January 1, 1993, describing, in general, the cost of, type of, and necessity for the plant installation and if other than to merely restore service to up to pre-Hurricane Iniki levels, whether the project is to make the KE system more storm resistant (a "hardening project") or is construction which was planned for a later period but is presently being done for economic reasons (an "expedited project"). Any individual project which costs less than $2,000 need not be separately described and may be combined under a "miscellaneous" category.

d. The AFUDC rate will be 10.13% per annum, until low-interest loans and/or grants are obtained by KE to

2 Normal plant construction, unrelated to Hurricane Iniki, will not be included in Restoration Plant.

cover the cost of the Restoration Plant, after which the rate will be the weighted average rate of all financing used by KE for the Restoration Plant. AFUDC will be compounded monthly until low-interest loans or grants are obtained, following which AFUDC will be compounded to reflect the outside interest payment schedule.

2. Depreciation.

a. KE will depreciate the Restoration Plant using its normal book lives starting with their respective in-service dates and, by a separate book entry, record such depreciation in a deferred debit account. Such depreciation shall also be removed from accumulated depreciation. The deferred debit account total will be amortized over the remaining useful lives of the Restoration Plant when rates are approved in the Deferred Rate Case.

b. Tax depreciation will be taken in the normal manner and will be afforded deferred income tax treatment in the Deferred Rate Case.

3. Extraordinary Expenses.

a. KE will defer Hurricane Iniki-related non-capital expenses for recovery by KE in the Deferred Rate Case over an amoritization period to be determined by the Commission in that case. While recovery of the extraordinary expenses is authorized, the amount and type of extraordinary expenses will be subject to review and approval in that case.

b. KE will accrue 10.13% annual interest, compounded monthly, on the deferred amount of extraordinary expenses. The Deferred Rate Case will decide KE's recovery period and continued earnings on the unrecovered amount, if any.

4. Lost Gross Margin.

a. The parties will not object to KE's accrual of lost gross margin amounts plus earnings as represented in its application. However, the parties are free to make their positions to the Commission in the Deferred Rate Case concerning the recoverability, amount of recovery, if any, and the period of recovery by KE.

b. KE will accrue 10.13% annual interest, compounded monthly, on the accrued lost gross margin amount. The Deferred Rate Case will decide KE's recovery period and continued earnings on the unrecovered amount, if any.

5. Low-Interest Loans.

a. KE will use its reasonable best efforts to obtain low-interest loans and/or grants to cover as much of the Restoration Plant costs as possible.

b. KE will, to preserve the entire benefit of any grant or low-interest loan for the customers of KE, reflect the amounts of grants or low-interest loans received as reductions to rate base in KE's Deferred Rate Case. In addition, KE shall include the interest expense from any low-interest loans as an expense to be recovered from customers in KE's Deferred Rate Case. Finally, KE shall present a proposal for recovery of the principal amount of any low-interest loans in KE's Deferred Rate Case.

6. Deferred Rate Case.

In consideration of the foregoing accounting practice modifications, KE will not file its next general rate increase application until 1994 for rates to be effective no earlier than January 1, 1995.

Each provision of this agreement is in consideration and support of all other provisions, and is expressly conditioned upon acceptance by the Commission of the agreement as a whole. In the event the Commission declines to adopt this agreement according to its terms, the agreement shall be deemed withdrawn and the parties shall be free to pursue their respective positions in this proceeding without prejudice.

DATED: Honolulu, Hawaii November 25, 1992.

ROBERT A. MARKS
Attorney General
State of Hawaii

By Lawrence M. Reifurth
LAWRENCE M. REIFURTH
Deputy Attorney General

DAVID COKER, ESQ.
ABIGAIL D. OGAWA, ESQ.
MAUREEN C. LINDSEY, ESQ.

Counsel for DEPARTMENT OF DEFENSE

By Oshima
L. RUSSELL MITTEN, ESQ.
ALAN M. OSHIMA, ESQ.
MICHAEL H. LAU, ESQ.

Counsel for CITIZENS UTILITIES COMPANY, KAUAI ELECTRIC DIVISION