

## **EXCEPTIONAL PROJECT RECOVERY MECHANISM ("EPRM") GUIDELINES**

### I. DEFINITIONS

As used in these Guidelines, unless the context clearly requires otherwise:

"Annual Revenue Adjustment" or "ARA" means the mechanism to provide annual revenue adjustments during a Multi-Year Rate Plan based on an index-driven formula.

"Commission" means the Public Utilities Commission of the State of Hawaii.

"Complex Projects" are projects that materially affect numerous aspects of the utility's operations, costs and/or earnings.

"Costs" means, inclusively, costs associated with return on and recovery of capital investments and/or expenses.

"Deferred Cost Project" means a project consisting of deferred expenses in excess of \$2.5 million, subject to the Commission's review and approval of deferred accounting treatment.

"Electric utility" or "utility" means a provider of electric utility service that is regulated by and subject to the Commission's jurisdiction pursuant to Chapter 269, HRS.

"Eligible Projects" are approved Major Projects, Deferred Cost Projects, or O&M Projects eligible for revenue recovery through the EPRM adjustment mechanism as provided in these Guidelines.

"EPRM adjustment" means an adjustment to the utility's target revenues effectuated through the utility's Revenue Balancing Account tariff, determined in accordance with these Guidelines.

"EPRM adjustment mechanism" means the provisions of recovery of Eligible Projects provided for in these Guidelines.

"Guidelines" or "EPRM Guidelines" means this document and related effective provisions, as set forth in the Commission's implementing orders in Docket No. 2018-0088.

"Hawaiian Electric" or "HECO" means Hawaiian Electric Company, Inc.

"HECO Companies" or "Hawaiian Electric Companies" or "Companies" means Hawaiian Electric, Maui Electric, and Hawai'i Electric Light, collectively.

"HRS" means the Hawaii Revised Statutes.

"Major Project" means a resource plant addition subject to application and review in accordance with the applicable provisions of the Commission's General Order No. 7.

"Maui Electric" or "MECO" means Maui Electric Company, Limited.

"Multi-Year Rate Period" or "MRP" means the multiple year period during which utility revenues are determined and controlled by an index-driven revenue formula, i.e., the Annual Revenue Adjustment.

"O&M Project" means a project or program consisting of incremental O&M expenses in excess of \$2.5 million accumulated over a period of three consecutive years and otherwise not eligible for EPRM recovery as a Major Project or Deferred Cost Project. "Incremental" means in excess of O&M expenses already recovered in rates.

"PIM" means Performance Incentive Mechanism.

"REIP" means the Renewable Energy Infrastructure Program.

"RBA" means the Revenue Balancing account provisions established by the utility's Revenue Balancing Account tariff.

"RPS" or "Renewable Portfolio Standard" is defined as set forth in HRS § 269-91, as amended.

"SSM" means Shared Savings Mechanism.

"Utility System" means the electric system owned and operated by a utility (including any non-utility owned facilities that are interconnected to the system) consisting of power plants, transmission and distribution lines, and related equipment for the production and delivery of electric power to the public.

## II. EPRM ADJUSTMENT MECHANISM

A. PURPOSE AND SCOPE OF THE EPRM ADJUSTMENT MECHANISM

1. Purpose and Scope. To provide a mechanism for recovery of revenues for net costs of approved Eligible Projects placed in service during a MRP, that is not provided for by other effective tariffs, the ARA, PIMs, or SSMs.

B. COST RECOVERY

1. Recovery of revenues for Major Project costs. Recovery of revenues through the EPRM adjustment mechanism may be found to be reasonable and explicitly allowed by order of the Commission, on a case by case basis, in the review of Major Projects in accordance with the applicable provisions of General Order No. 7.
2. Recovery of revenues for Deferred Cost Project and O&M Project costs. Recovery of revenues through the EPRM adjustment mechanism may be found to be reasonable and explicitly allowed by order of the Commission, on a case by case basis, in the review of any applications for Deferred Cost Projects or O&M Projects.
3. Prohibition of duplicative cost recovery. Notwithstanding any other specific provisions in these Guidelines, the EPRM adjustment mechanism shall not collect or recover revenues for costs or expenses recovered through other effective tariffs or revenue recovery mechanisms, including but not limited to revenues collected through the ARA, PIMs, or SSMs. The utility shall have the burden of proof in an application for recovery of revenues through the EPRM adjustment mechanism that recovered revenues shall not be duplicative.
4. Except as otherwise provided in these Guidelines, an electric utility shall be able to seek, through the ratemaking process or

other effective mechanisms (i.e., base rates, the ARA, or the REIP Surcharge), recovery of the reasonable and approved capital costs and expenses of Eligible Projects.

### III. EPRM ADJUSTMENT MECHANISM PROVISIONS

#### A. DESCRIPTION OF THE EPRM ADJUSTMENT MECHANISM

1. The EPRM adjustment mechanism is a reconciled cost recovery mechanism to provide opportunity for reasonable recovery of specifically allowed revenues for the net costs of approved Eligible Projects placed in service during a MRP wherein cost recovery is not already provided for by other effective recovery mechanisms, including the ARA, PIMs, or SSMS.

#### B. ELIGIBLE PROJECTS

1. Projects and costs that may be eligible for recovery through the EPRM adjustment mechanism are Eligible Projects including but not restricted to the following illustrative examples, subject to the Commission's approval in accordance with these Guidelines:
  - a. Infrastructure that is necessary to connect renewable energy projects. Infrastructure projects such as transmission lines, interconnection equipment and substations, which are necessary to bring renewable energy to the system. For example, renewable energy projects, such as wind farms, solar farms, biomass plants and hydroelectric plants, not located in proximity to the electric grid must overcome the additional economic barrier of constructing transmission lines, a switching station and other interconnection equipment. Building infrastructure to these projects will encourage additional renewable generation on the grid;

- b. Projects that make it possible to accept more renewable energy. Projects that can assist in the integration of more renewable energy onto the electrical grid. For example, new firm generation or modifications to firm generation to accept more variable renewable generation or energy storage and pumped hydroelectric storage facilities that allow a utility to accept and accommodate more as-available renewable energy;
- c. Projects that encourage clean energy choices and/or customer control to shift or conserve their energy use. Projects that can encourage renewable choices, facilitate conservation and efficient energy use, and/or otherwise allow customers to control their own energy use. For example, smart meters would allow customers to monitor their own consumption and use of electricity and allow for future time-based pricing programs. Systems such as automated appliance switching would provide an incentive to customers to allow a utility to mitigate sudden declines in power production inherent in as-available energy;
- d. Approved or Accepted Plans, Initiatives, and Programs. Capital investment projects and programs, including those transformational projects identified within the Companies' ongoing planning and investigative dockets, as such plans may be approved, modified, or accepted by the Commission, and projects consistent with objectives established in investigative dockets;
- e. Utility Scale Generation and Energy Storage. Electric utilities may seek recovery through the EPRM adjustment mechanism for the costs of a utility scale renewable generation or energy storage project, or a generation or energy storage project, that can assist in the integration of more renewable energy onto the electrical grid;

- f. Grid Modernization projects. Projects such as smart meters, inverters, energy storage, and distribution automation to enable demand response.
- g. Service contracts. Company contracts with third-parties that (1) provide facilities or functionality that could otherwise be provided by a utility capital project and (2) provide services that directly and predominantly support another express EPRM Eligible Projects category.

- 2. Revenues eligible for EPRM relief are limited to those demonstrated to be : (i) be prudent and reasonable, (ii) provide customer value, (iii) enhance the affordability of energy services, and (iv) which are not directly or indirectly included in otherwise effective utility target revenues or other effective means of revenue recovery.

C. COST RECOVERY, EPRM ADJUSTMENT MECHANISM ELEMENTS, APPLICATIONS AND IMPLEMENTATION

- 1. Prior Commission approval shall be received for the costs of Eligible Projects to be recovered through the EPRM adjustment mechanism.
- 2. Elements of the EPRM adjustment mechanism.
  - a. Electric utilities may seek to recover Eligible Project costs, as described in 2(b), through the EPRM adjustment mechanism pursuant to the process set forth in section 3, below.
  - b. Costs eligible for the EPRM adjustment mechanism include:
    - i. Return on the net of tax average annual undepreciated investment or unamortized balance of the deferred cost in allowed

Major Projects or Deferred Cost Projects during EPRM recovery for each project at rate of return to be determined in the review of each Eligible Project application, as approved by the commission, except that in the initial year in service, the average of the balance at the in-service date and the balance at the end of the initial year;

- ii. Recorded depreciation accruals (at a rate and methodology to be determined in review of each project's application, and as approved by the Commission) in allowed Major Projects to begin on the following January 1<sup>st</sup> after the month of the in-service date of the Project;
  - iii. Amortization accruals (at a rate and methodology to be determined in review of each project's application, and as approved by the Commission) in allowed Deferred Cost Projects to begin on the date of the onset of EPRM recovery of the deferred cost for the project;
  - iv. Operations and maintenance expenses associated with the Eligible Project, not otherwise included in base rates, the ARA, or other cost recovery mechanisms;
  - v. Other relevant costs, applicable taxes, and/or offsetting cost savings, approved by the Commission.
- c. All costs that are allowed to be recovered through the EPRM adjustment mechanism, shall be offset by any related net benefits of implementation of the approved Eligible Project (e.g., cost savings, revenue enhancements offset by O&M expenses, avoided depreciation on retired utility plant, etc.), as those net benefits are quantifiable and can be realized by the electric utility.

- d. Project details, including the period of recovery of the project's cost, appropriate depreciation amounts and other project details, will be described within the business case included with the application for approval for recovery of costs through the EPRM adjustment mechanism.
- e. Prior Commission approval shall be received in order for the costs of Eligible Projects to be included for cost recovery through the EPRM adjustment mechanism. Authorization to include recovery of costs for any specific project through the EPRM adjustment mechanism will ordinarily be granted or denied at the time the Commission issues a decision and order with respect to the proposed commitment of expenditures for the project in accordance with the applicable provisions of the Commission's General Order No. 7, or with respect to the proposed use of deferred accounting treatment for a project, or with respect to the authorization to recover expenses for a project. All costs proposed to be recovered through the EPRM adjustment mechanism will be limited to amounts approved in advance by the Commission.
- f. Any approval of recovery of costs of an Eligible Project through the EPRM adjustment mechanism shall continue until new rates become effective that provide cost recovery for the Eligible Project or as otherwise provided by the Commission.
- g. Recovery of incurred Eligible Project costs that exceed the amounts approved through the EPRM adjustment mechanism may be requested and considered for inclusion in the revenue requirements in subsequent proceedings, subject to review and approval by the Commission.



3. Applications for recovery through the EPRM adjustment mechanism.
  - a. With respect to applications seeking approval to utilize the EPRM adjustment mechanism for cost recovery, the electric utility bears the burden of proof that all project costs proposed for EPRM treatment meet the criteria specified herein and are not routine replacements of existing equipment or systems with like kind assets, relocations of existing facilities, restorations of existing facilities, or other kinds of business-as-usual investments.
  - b. Application for recovery of costs through the EPRM adjustment mechanism shall be made in conjunction with and as part of an application (1) pursuant to General Order No. 7, (2) for deferred accounting treatment, or (3) for other specific project or program authorization or approval. Absent a requirement to file an application for such project or program authorization or approval, the utility may file a separate independent application for recovery of costs through the EPRM adjustment mechanism.
  - c. Costs recovered through the EPRM adjustment mechanism shall be offset by all known and measurable operational net savings or benefits resulting from the Eligible Projects, (including accumulated depreciation and accumulated deferred income tax reserves, reductions in operating and maintenance expenses, related additional revenues, etc.) to the extent such savings or benefits are not passed on to ratepayers through energy cost or other adjustment clause mechanisms, and to the extent that such savings or benefits can reasonably be quantified. Net savings and benefits shall be offset as they are realized to the extent feasible. A business case study shall be submitted with each application

identifying and quantifying all operational and financial impacts of the Eligible Project and illustrating the cost/benefit tradeoffs that justify proceeding with the project to the extent that such impacts can reasonably be determined.

- d. Applications for Eligible Projects hereunder shall be made pursuant to General Order No. 7 procedures, or other applicable authority or procedure. Applications shall explain each basis for claimed EPRM eligibility, indicating the linkage of the project to any previously submitted planning studies, previously submitted construction budgets and any relevant active Commission dockets. Applications shall also include the information set forth in the following paragraphs (e) through (i).
- e. A detailed business case study shall be included, covering all aspects of the planned investments and activities, indicating all expected costs, benefits, scheduling and all reasonably anticipated operational impacts. The business case shall reasonably document and quantify the cost/benefit characteristics of the investments and activities, indicating each criterion used to evaluate and justify the project, including consideration of expected risks and ratepayer impacts. The business case should also clearly outline how it will advance transformational efforts with appropriate quantifications, to the extent such quantifications can reasonably be determined.
- f. A detailed schedule and budget for each element of the planned investment and activities shall be submitted, quantifying any contingencies, risks, and uncertainties, and indicating planned accounting and ratemaking procedures and expected net customer impacts.

- g. Applications must state the specific criteria that are proposed for determination of used and useful status of the project, to ensure that no costs are deferred or recovered for new assets that are merely commercially available, but are not being used to provide service to ratepayers.
  - h. Recoverable costs shall be limited to the lesser of actual net incurred project/program costs or Commission-approved amounts, net of savings.
  - i. Complex Projects may be eligible for recovery through the EPRM adjustment mechanism, when supported by sufficient detailed business case analysis and documentation of reasonably quantifiable expected impacts, costs and benefits resulting from such projects.
  - j. Parties to the proceedings on applications for recovery of costs through the EPRM adjustment mechanism shall endeavor to complete procedural steps to allow for approval of the application within seven months of the date of application. The Companies acknowledge that the procedural schedule for EPRM for complex projects may take longer than projects that do not affect numerous aspects of the utility's operations, expenses, or earnings.
4. Implementation of EPRM adjustments.
- a. The existence of these EPRM provisions does not constitute any assurance of ultimate entitlement to:
    - i. Approval for the commitment of funds for any specific project,
    - ii. Approval to include the costs for any specific project through the EPRM adjustment mechanism, or

- iii. Approval to begin cost recovery (i.e., depreciation or amortization) or accelerate cost recovery for any specific project using the EPRM adjustment mechanism.
- b. EPRM adjustments approved by the Commission in accordance with these Guidelines shall be implemented as an adjustment to the utility's target revenues implemented in accordance with the utility's RBA tariff.
- c. Recovery of approved costs for Eligible Projects shall be included in the EPRM adjustment in accordance with a Commission order specifying the allowed recovery amount and period.
- d. Collection and reconciliation of approved costs recovered through EPRM adjustments shall be implemented through the utility's RBA Rate Adjustment and RBA tariff provisions. The accrual, collection and reconciliation of revenues through the EPRM adjustment mechanism for each Eligible Project shall be documented and reviewed in the filing and review of the utility's RBA transmittals, as provided in the utility's RBA tariff.
- e. Accrual of revenues recovered through the EPRM adjustment mechanism for an Eligible Project shall commence upon certification of the project's completion and/or in-service date in accordance with terms approved by the Commission at the time cost recovery through the EPRM adjustment mechanism is approved in the underlying proceeding for EPRM relief.
- f. The accrual of revenues approved for recovery through the EPRM adjustment mechanism shall terminate (i) when and to the extent that the recovery of net costs is incorporated in base rates in a separate Commission proceeding, or (ii) when and to the extent that recovery of

net costs is affected by other cost recovery means, or (iii) at a time, or according to, criteria specified by the Commission at the time recovery through the EPRM adjustment mechanism is approved.

- g. Any over-recoveries or under-recoveries of revenues under the EPRM adjustment mechanism shall be refunded for collected, with interest, in accordance with the reconciliation provisions in subpart (c) above.
- h. MECO may propose a mechanism or methods to provide separate recovery of Eligible Project costs for its Maui, Molokai, and Lanai divisions, otherwise consistent with these Guidelines.