BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

------ In the Matter of ------	)	
	)	
PUBLIC UTILITIES COMMISSION	)	DOCKET NO. 2018-0088
	)	
Instituting a Proceeding To Investigate Performance- Based Regulation.	)	

ORDER NO. 42639

ADDRESSING THE JOINT ALTERNATIVE
REBASING PROPOSAL FILED ON MARCH 6, 2026

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------ In the Matter of ------ PUBLIC UTILITIES COMMISSION Instituting a Proceeding To Investigate Performance-Based Regulation.	DOCKET NO. 2018-0088 ORDER NO. 42639

ADDRESSING THE JOINT ALTERNATIVE
REBASING PROPOSAL FILED ON MARCH 6, 2026

By this Order,[1] the Public Utilities Commission ("Commission") addresses and resolves the Alternative Rebasing Proposal jointly filed by Hawaiian Electric and Ulupono on March 6, 2026.[2] The Commission will adopt for purposes of this

[1]The Parties to this proceeding are HAWAIIAN ELECTRIC COMPANY, INC. ("HECO"), HAWAII ELECTRIC LIGHT COMPANY, INC. ("HELCO"), MAUI ELECTRIC COMPANY, LTD. ("MECO") (collectively, HECO, HELCO, and MECO are referred to as "Hawaiian Electric" or the "Companies") and the DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"), an ex officio party, pursuant to Hawaii Revised Statutes § 269-51 and Hawaii Administrative Rules § 16-601-62(a). Additionally, the Commission has granted the following entities intervenor status: CITY AND COUNTY OF HONOLULU, COUNTY OF HAWAII, BLUE PLANET FOUNDATION, LIFE OF THE LAND, DER COUNCIL OF HAWAII, HAWAII PV COALITION, HAWAII SOLAR ENERGY ASSOCIATION, and ULUPONO INITIATIVE, LLC ("Ulupono"). Order No. 35542, "Admitting Intervenors and Participant and Establishing a Schedule of Proceedings," filed June 20, 2018.

[2]"Hawaiian Electric Companies' and Ulupono Initiative LLC's Joint Alternative Rebasing Proposal; Attachment 1 Ulupono Joinder

rebasing of the Companies' Target Revenue the modified methodology offered in the Alternative Rebasing Proposal. However, the Commission rejects certain other aspects of the Proposal, including the Companies' proposed reservation of rights ("Reservation of Rights") to seek a general rate case if its proposed revenue requirement increase of $170 million is not approved. These are discussed below.

As discussed herein, Hawaiian Electric shall re-submit its request for an increase in its revenue requirement, with supporting materials, in the form of a new application by July 1, 2026. The Commission provides a tentative schedule to govern this new proceeding and, in doing so, also rejects the proposed schedule in the Alternative Rebasing Proposal.

I.

BACKGROUND

The history of the Alternative Rebasing Proposal and related considerations is summarized in prior Commission Orders.[3]

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and Exhibits 1-12; Exhibits A-K; and Certificate of Service," filed on March 6, 2026 ("Alternative Rebasing Proposal").

[3]See Order No. 40852, "Providing Preliminary Guidance Regarding the Comprehensive Review of the Performance-Based Regulation Framework," filed on June 19, 2024 ("Order No. 40852"); Order No. 41575, "Addressing the Matter of Re-Basing Hawaiian Electric's Target Revenues for the Second Multi-Year Rate Period," filed on February 27, 2025 ("Order No. 41575"); Order No. 41876, "Addressing Phase 5, Initiating Phase 6, and Providing Further

Briefly, as an alternative to rebasing Hawaiian Electric's Target Revenue ahead of the second multi-year rate period ("MRP2") using a general rate case-like proceeding, Hawaiian Electric and Ulupono propose a novel methodology for rebasing Target Revenue that focuses on three cost adjustments:[4]

1. A true-up amount to adjust base rates for the difference between forecasted and actual Gross Domestic Product Price Index ("GDPPI") during MRP1, estimated at $83.2 million.
2. Implementation of approved depreciation rates for steam generating units, estimated at $44.8 million.[5]
3. An adjustment for exceptional O&M (insurance) expense increase, estimated at $46.9 million.

Guidance Regarding the Comprehensive Review of the Performance-Based Regulation Framework," filed on August 13, 2025 ("Order No. 41876"); and Order No. 42562, "Soliciting Additional Comments on the Joint Alternative Rebasing Proposal Filed on March 6, 2026," filed on May 19, 2026 ("Order No. 42562").

[4]Alternative Rebasing Proposal at 9-10.

[5]The new depreciation rates were the subject of Docket No. 2024-0199 and were approved in Decision and Order No. 41909, filed on September 2, 2025.

In addition to the above, Hawaiian Electric also proposes to offset this increase by a reduction of $5.1 million to O&M expenses. This reflects a total increase in the Companies' revenue requirement of $170.0 million.[6]

Hawaiian Electric also proposes a procedural schedule to implement the Alternative Rebasing Proposal, which it estimates could take approximately 6-7 months.[7]

The Commission preliminarily addressed the Alternative Rebasing Proposal in Order No. 42562, where the Commission indicated its inclination to adopt the alternative rebasing methodology, subject to modifications to the procedural schedule and rejection of Hawaiian Electric's Reservation of Rights, but first solicited comments from the Parties on the procedural schedule as an opportunity for other parties to recommend alternative procedural steps and intervals addressing due process and other legal concerns.[8] In response, Parties filed comments on May 22 and 26, 2026; positions varied, but there is general agreement that additional time is desired for discovery,

[6]Alternative Rebasing Proposal at 10.

[7]Alternative Rebasing Proposal at 72-74 (Hawaiian Electric's proposed schedule utilized a procedural start date of early April 2026 and a projected decision and order in September/October 2026).

[8]Order No. 42562 at 10-11.

public hearings, and statements of position.[9] Hawaiian Electric also filed a response, in which it maintains that information about the Alternative Rebasing Proposal was provided during Working Group meetings.[10]

II.

DISCUSSION

A.

Adopting, In Part, The Alternative Rebasing Proposal

Upon review, the Alternative Rebasing Proposal primarily serves as a vehicle for introducing Hawaiian Electric's proposed methodology for rebasing Target Revenue, but includes a number of distinct propositions and requests, including:

- An alternative methodology for rebasing Target Revenue, consisting of adjusting Hawaiian Electric's

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[9]"Life of the Land's Comments Re Order No. 42652 Soliciting Additional Comments on the Joint Alternative Rebasing Proposal Filed on March 6, 2026," filed on March 22, 2026; Letter From: D. Codiga To: Commission Re: Docket No. 2018-0088 – Performance-Based Regulation; Response to Order No. 42562 Regarding Alternative Rebasing Proposal Procedural Schedule, filed on May 26, 2026; "Blue Planet Foundation's Comments on the Proposed Schedule," filed on May 26, 2026; and "Division of Consumer Advocacy's Comments on the Proposed Schedule," filed on May 26, 2026.

[10]Letter From: P. Young To: Commission Re: Docket No. 2018-0088 – Performance-Based Regulation; Hawaiian Electric Companies' Comment in Response to Order No. 42562, filed on May 26, 2026.

Target Revenue based on the following cost drivers: (1) a true-up amount for the difference between implemented forecasted and actual GDPPI during MRP1 ("GDPPI Adjustment"); (2) implementation of approved depreciation rates for steam generating units ("Depreciation Rate Adjustment"); (3) an adjustment for exceptional O&M (insurance) expense increase ("Insurance Adjustment"); and (4) a reduction to O&M expenses offered by Hawaiian Electric ("O&M Reduction Adjustment") (collectively, "Alternative Methodology Proposal"). Based on these drivers, Hawaiian Electric proposes an increase of $170 million to its revenue requirement to rebase its Target Revenue for MRP2.[11] However, as noted below, the Alternative Rebasing Proposal contains some additional adjustments to Target Revenue that may affect the final change to Hawaiian Electric's revenue requirement.

- A two-year phase in of the proposed increase, including allocation across Companies, to moderate impact on customer bills, consisting of a proposed increase of $125 million in the first year of MRP2

[11]Alternative Rebasing Proposal at 9-10.

and the remaining $45 million in the second year of MRP2 ("Phase-In Proposal").[12]

- Incorporation of the Major Project Interim Recovery ("MPIR") and Exceptional Project Recovery Mechanism ("EPRM") revenue requirements, net of cost savings and benefits, for approved projects that were completed and placed into service as of December 31, 2024 ("MPIR/EPRM Proposal").[13]
- All rebasing impacts that result in changes to Target Revenue will be recovered through the RBA Rate Adjustment and will continue until the Commission approves a revised rate design that revises base rates and the RBA Rate Adjustment accordingly ("Implementation Proposal").[14]
- Establishing a "200" ['bps' or basis points] incentive pool made up of: (1) for the general category of service quality, 100 bps of authorized ROE tied to utility performance, with 50 bps of

[12]Alternative Rebasing Proposal at 20-21.

[13]Alternative Rebasing Proposal at 43 and 45-47.

[14]Alternative Rebasing Proposal at 44.

penalties potential and 50 bps of award potential" ("PIMs Proposal").[15]

- Beginning in the first year of MRP2, the Working Group convene to work on a potential proposal to standardize a process to rebase rates before the beginning of MRP3 ("Working Group Proposal").[16]
- The Reservation of Rights by Hawaiian Electric "to consider any material modification or condition placed on any Commission approval of the Joint Proposal, unless expressly accepted by the Companies, to be a *de facto* rejection of the Joint Proposal, which will result in the Companies reverting to the filing of a rate case-type proceeding as previously recognized by the Commission"[17] ("Reservation of Rights Proposal").
- Waiving the need for existing PBR Parties to seek intervention in the rebasing proceeding, with the exception of the City & County of Honolulu, due to

[15]Alternative Rebasing Proposal at 48.

[16]Alternative Rebasing Proposal at 49.

[17]Alternative Rebasing Proposal at 49-50 (citing Order No. 41963 at 15).

its lack of attendance at Working Group meetings ("Intervention Proposal").[18]

- Resetting the pension and Other Post-Employment Benefits ("OPEB") tracking mechanisms upon implementation of rebased Target Revenue based on the estimated 2026 year-end balances with amortization of the pension tracking liability, the OPEB tracking liability and the non-service cost regulatory asset/liabilities beginning over a five-year period[19] ("Tracker Proposal").
- Treating the unamortized balances of the regulatory assets associated with the early retirement of Honolulu Units 8 & 9 and Waiau Units 3 & 4 as incorporated into rate base, with the corresponding amortization and any associated benefits from the retired assets reflected in the O&M expense and all such amounts included in the rebased Target Revenues ("Unit Retirement Proposal").[20]
- Incorporating expenses incurred in preparation for a 2026 test year rate case and amortizing them over a

[18]Alternative Rebasing Proposal at 53-54, including n.71.

[19]Alternative Rebasing Proposal at 66.

[20]Alternative Rebasing Proposal at 67.

five-year period to coincide with MRP2 ("Rate Case Expense Proposal").[21]

- Incorporating proceeds from the sale of a lease fee interest in units at the Iolani Court Plaza Condominium Project into Target Revenues by amortizing the net gain over a period of five years ("Condo Sale Proposal").[22]
- Rate design will occur in a separate track to follow after the proposal to modify the Companies' revenue requirement is resolved. Specifically, the Companies propose filing a rate design for all islands in its service territories 4-5 months after a rebased Target Revenue is approved[23] ("Rate Design Proposal").

The Commission appreciates the Parties' efforts and input on this novel process. As noted in prior Orders, this rebasing and its role in the PBR Framework is an unprecedented endeavor by the Commission as it works to implement the legislative directives in HRS § 269-16.1. Consistent with the Commission's preliminary rulings in Order No. 42562, the Commission will utilize the Alternative Rebasing Proposal's methodology to rebase

[21]Alternative Rebasing Proposal at 68-69.

[22]Alternative Rebasing Proposal at 69.

[23]Alternative Rebasing Proposal at 75.

Hawaiian Electric's Target Revenue as part of the transition to MRP2. This offers the opportunity to pilot a new process that moves away from traditional cost-of-service ratemaking, as indicated by the Legislature. It also offers opportunities to streamline the rebasing process and may serve as a foundation for future proceedings that can continually seek more refined and innovative ways to address adjustments to Target Revenue.

To this end, the Commission adopts the following components of the Alternative Rebasing Proposal. As discussed below, these adopted components shall be re-submitted by Hawaiian Electric by July 1 as a new application to a new proceeding:

- The Alternative Methodology Proposal
- The Phase-In Proposal
- MPIR/EPRM Proposal
- Implementation Proposal
- Intervention Proposal
- Tracker Proposal
- Unit Retirement Proposal
- Rate Case Expense Proposal
- Condo Sale Proposal
- Rate Design Proposal

In selecting the above, the Commission has identified those Proposals which are consistent and necessary to determine and implement a rebasing of Hawaiian Electric's Target Revenue. The Alternative Methodology Proposal forms the bulk of the new rebasing methodology that will be used. The Phase-In Proposal and Implementation Proposals are logistical considerations needed to effectuate the rebasing as proposed by Hawaiian Electric. The MPIR/EPRM Proposal, Tracker Proposal, Unit Retirement Proposal, Rate Case Expense Proposal, and Condo Sale Proposal all represent requested additional adjustments to Hawaiian Electric's revenue requirement that are relevant for determining Hawaiian Electric's new, rebased Target Revenue for MRP2. The Intervention Proposal and Rate Design Proposal are consistent with prior Commission guidance regarding how the rebasing proceeding will occur.[24]

To confirm, the above merely identifies the specific proposals that may be included in Hawaiian Electric's forthcoming application. They do not convey approval for the specific amounts or actions proposed by Hawaiian Electric in the Alternative Rebasing Proposal. Rather, they form the scope of proposed adjustments to Hawaiian Electric's revenue requirement and its implementation that will be examined in the new rebasing

[24] See Order No. 41575 at 33-37.

proceeding. The exceptions to this are the Intervention Proposal and Rate Design Proposal, which are approved at this time.[25]

Relatedly, the Commission expressly rejects the following components for inclusion in Hawaiian Electric's forthcoming application:

- PIMs Proposal
- Working Group Proposal
- Reservation of Rights Proposal

The PIMs Proposal is distinct from the Target Revenue rebasing and is more relevant to the examination of PBR mechanisms that will occur in its separate proceeding. To this end, the Commission clarifies that its rejection of the PIMs Proposal is not a categorical rejection of the proposed valuation of the PIM portfolio for MRP2; rather, it is merely a finding that the PIM Proposal is not relevant to the rebasing proceeding and, thus, should not be included in the scope of the rebasing proceeding. Hawaiian Electric and/or Ulupono may explore this proposal as part of Phase 6 of this proceeding, which is expected to address the PIM portfolio, in its entirety.

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[25]The Intervention Proposal and Rate Design Proposal do not affect Hawaiian Electric's proposed revenue requirement, but rather, are procedural in nature and go to the overall administration of the forthcoming rebasing proceeding. As such, the Commission is approving them at this time, in the interest of administrative efficiency.

Similarly, the Working Group Proposal is not relevant to rebasing Target Revenue. However, rejection of the Proposal is not a rejection of the concept, per se; the Commission encourages the Parties to begin exploring the issue of rebasing for future MRP cycles at their earliest convenience. As noted in prior Orders, Commission approval is not necessary for Working Group members to convene.

The Commission rejects the Reservation of Rights Proposal. As stated in Order No. 42562, the Companies' proposed Reservation of Rights is inconsistent with the goal of achieving a more streamlined and efficient process, as exercise of the Reservation of Rights at the end of the proceeding would nullify any gains and revert back to preparation for a traditional general rate case.[26] Reverting to a traditional cost of service rate proceeding at the Companies' discretion would also be inconsistent with the intention and guidance set forth in HRS §269-16.1.

B.

Next Steps

Based on the above, the Commission finds that Hawaiian Electric must supplement the specific requests approved by the Commission for examination in a rebasing proceeding.

[26]Order No. 42562 at 11-13.

As stated by the Commission earlier, the rebasing will occur as part of a separate proceeding, divided into two tracks, with the first track addressing the modifications to Target Revenue for each of the Companies to begin MRP2 and the second track "focus[ing] on updating revenue allocations and rate design for each of the Companies in accordance with updated class load information and cost-of-service analysis."[27] In doing so, as noted above, the Commission adopts the Rate Design Proposal, subject to further instructions by the Commission following the conclusion of Track 1, as provided in the tentative procedural schedule below. Relatedly, all parties to this docket shall automatically be named as parties to the rebasing proceeding without the need to move for intervention;[28] however, the Commission concurs with Hawaiian Electric's assessment of the City & County of Honolulu's participation in this docket and excludes them from this automatic granting of party status. That being said, the City & County of Honolulu may still move to intervene or participate in the rebasing proceeding, as can any other new entities who may wish to join the rebasing proceeding. In doing so, as noted above, the Commission adopts the Intervention Proposal.

[27]Order No. 41575 at 33-34.

[28]See Order No. 41575 at 33.

To support the timely and efficient commencement of the rebasing proceeding, the Commission offers a tentative procedural schedule to assist the Parties in their planning. The schedule is based on the proposed schedule in the Alternative Rebasing Proposal, but with certain modifications to comport with relevant statutory opportunities for public input and due process.[29] Because certain dates have not been determined yet (e.g., specific dates for public hearings), only a tentative schedule is shared at this time:

Procedural Step	**Deadline**
HECO submits application seeking approved Alternative Rebasing Proposal requests in a new docket,[30] accompanied by supporting testimonies, exhibits, and workpapers for specific cost adjustments	July 1, 2026
Public Hearings	August 2026
Intervention deadline	Late August 2026 (+10 days from last public hearing)

[29]Order No. 42562 at 10.

[30]The opening of a new docket to receive Hawaiian Electric's rebasing request is consistent with prior Commission determinations. See Order No. 41575 at 33. Consistent with those prior determinations, all Parties to this docket, Docket No. 2018-0088, shall automatically be named as Parties to that new docket without the need to move for intervention or participation. Id. As a corollary, addressing the rebasing issues in a separate docket avoids the potential issues related to allowing parties to seek intervention or participation at this late stage of Docket No. 2018-0088.

Procedural Step	Deadline
Filings responding to motions to intervene or participate	Early September 2026 (+5 business days from filing of motions)
Procedural Order addressing intervention, schedule, and initiating discovery (rolling IRs[31])	Mid-late September 2026
End of rolling IR period	Early November 2026
Last HECO response to rolling IRs	Mid-November 2026 (+5 business days from last IR)
Parties' SOPs with supporting testimonies, exhibits, and workpapers	Mid-December 2026 (+1 month after last IR)
HECO IRs to Parties	Early January 2027 (+2 weeks – not rolling, single batch
Parties' response to HECO IRs	Mid-January 2027 (+2 weeks from date of IRs)
HECO rebuttal testimonies, exhibits, and workpapers	Late January 2027 (+2 weeks from responses to IRs)
Prehearing SOPs	Early February 2027 (+1 month from rebuttal)
Prehearing Conference(*may be waived)	Mid-February 2027 (+1 week from Prehearing SOPs)
Evidentiary Hearing (*may be waived)	Late February (+1 weeks from Prehearing Conference; estimated 3-4 days, utilizing panel format)
Post-hearing briefs	Mid-March 2027 (+2 weeks from hearing)

[31]Hawaiian Electric shall respond to each IR within five business days of receipt, unless otherwise granted leave by the Commission.

Procedural Step	Deadline
Commission final D&O on Track 1	Mid-late April 2027
Commission Order initiating Track 2 (rate design)[32]	Subsequent to Track 1 D&O[33]

Following the filing of Hawaiian Electric's new application, the Commission will affirm the procedural schedule in that docket with more complete dates and deadlines. However, the structure of the procedural schedule is not expected to change. The Commission acknowledges Hawaiian Electric's comments that information was previously exchanged with Parties during Working Group meetings. However, the Commission notes that conceptual discussions used to develop a proposal are distinct from vetting and review of a proposal. Further, as noted above, the Commission is requiring Hawaiian Electric to supplement its request with supporting material, which may not have been available to parties during Working Group discussions. Lastly, Hawaiian Electric's comments pertain only to PBR Parties who

[32]See Order No. 41575 at 33-34.

[33]As noted above, pursuant to the Rate Design Proposal, Hawaiian Electric shall file a rate design proposal for all islands in its service territories 4-5 months after Track 1 is resolved. Alternative Rebasing Proposal at 75. The Commission expects that Hawaiian Electric will proactively begin preparations for Track 2, such conducting the necessary class load studies and other supporting analyses to support a complete rate design proposal by this deadline.

participated in Working Group meetings. Any new entities who seek to intervene or participate in the rebasing proceeding will not have had the benefit of Working Group discussions or prior access to information. That being said, Hawaiian Electric may consider proactively collecting and sharing relevant information from its Working Group discussions with Parties as part of its forthcoming application to help facilitate the sharing of information and potentially reducing the need for discovery.

With the matter of the method and venue for rebasing Hawaiian Electric's Target Revenue for MRP2 now resolved, the Commission will resume Phase 6 of this proceeding. As previously indicated, the Commission intends to initiate Phase 6 with a staff proposal to focus development and examination of specific PBR mechanisms, based on the consensus and comments solicited from the Parties during Phase 5.[34] In light of the time that has passed due to resolution of the Companies' request to explore an alternative rebasing methodology, the Commission will consider whether its earlier proposed framework for Phase 6 is still desirable or if a different framework may be more efficient. Further details will be communicated in a forthcoming Order.

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[34]See Order No. 41876 at 66-67.

III.

ORDERS

THE COMMISSION ORDERS:

1. The Commission adopts the Alternative Rebasing Proposal, in part, as set forth above. This supersedes the Commission's earlier determination on this issue in Order No. 41575.

2. The Commission rejects specified portions of the Alternative Rebasing Proposal, as set forth above.

DONE at Honolulu, Hawaii JUNE 15, 2026.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By____________________
Jon S. Itomura, Chair

By____________________
Naomi U. Kuwaye, Commissioner

By____________________
Colin A. Yost, Commissioner

APPROVED AS TO FORM:

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Mark Kaetsu
Commission Counsel

2018-0088.ljk

CERTIFICATE OF SERVICE

The foregoing Order was served on the date it was uploaded to the Public Utilities Commission's Case and Document Management System and served through the Case and Document Management System's electronic Distribution List.

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