

MOLOKAI DIVISION

ENERGY COST ADJUSTMENT CLAUSE

Applicable To

Schedule "R"	-	Residential Service
Schedule "G"	-	General Service - Non Demand
Schedule "J"	-	General Service - Demand
Schedule "P"	-	Large Power Service
Schedule "F"	-	Public Street Lighting
Schedule "TOU-EV"	-	Residential Time-of-Use Service with Electric Vehicle
Schedule "TOU-R"	-	Residential Time-of-Use Service
Schedule "TOU-G"	-	Small Commercial Time-of-Use Service
Schedule "TOU-J"	-	Medium Commercial Time-of-Use Service
Schedule "TOU-P"	-	Large Power Time-of-Use Service
Schedule "SS"	-	Standby Service
Schedule EV-F	-	Commercial Public Electric Vehicle Charging Facility Service Pilot
Schedule TOU-RI	-	Residential Interim Time-of-Use Service

All terms and provisions of the above listed schedules are applicable, except that the Energy Cost Adjustment Clause described below will be added to the customer bills.

All base rate schedule discounts, surcharges, and all other adjustments will not apply to the energy cost adjustment.

Energy Cost Adjustment Clause:

This Energy Cost Adjustment Clause shall include the following:

FUEL AND PURCHASED ENERGY - The above rates are based on a company-owned central station and other generation cost (exclusive of company-owned distributed generation (DG)) of 2,144.57 cents per million Btu for fuel delivered in its service tanks a purchased energy composite cost of 21.80 cents per kilowatthour, and a company-owned DG energy composite cost of 0.000 cents per kilowatthour for fuel delivered to the fuel tank at the site used for company-owned DG. Company-generated energy from non-fuel sources shall be considered as zero fuel cost in the determination of the composite fuel cost.

When the Company-generated Composite Cost of Generation is more or less than 2,144.57 cents per million BTU, and/or the Purchased Energy Cost is more or less than 21.80 cents per kilowatthour, and/or the company-owned DG Energy Composite Cost is more or less than 0.000 cents per kilowatthour, a corresponding adjustment (Energy Cost Adjustment Factor) to the energy charges shall be made.

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Energy Cost Adjustment Clause (Continued)

This adjustment shall be comprised of a Company Composite Central Station With Other Generation Component, a Purchased Energy Component, and a DG Energy Generation Component.

The Company Composite Central Station With Other Generation Component shall be the difference between the current Weighted Composite Central Station + Other Generation Cost and the Weighted Base Central Station + Other Generation Cost, adjusted for additional revenue taxes. The current Weighted Composite Central Station + Other Generation Cost shall be determined by the Current Composite Cost of Generation in cents per million BTU weighted by the proportion of current company-owned central station + Other generation to total system net energy, multiplied by the 2012 test-year efficiency factors of 0.000000 million BTU per kilowatthour for industrial fuel, 0.011194 million BTU per kilowatthour for diesel fuel, and 0.011194 million BTU per kilowatthour for other company generation sources, weighted by the current proportion of generation produced by each generation source to the total company-owned generation.

The Weighted Base Central Station + Other Generation Cost is the Base Central Station + Other Generation Cost of 2,144.57 cents per million BTU weighted by the 2012 Test Year proportion of company-owned central station + Other generation to total system net energy, multiplied by the 2012 Test Year efficiency factor of 0.011194 million BTU per kilowatthour.

The Purchased Energy Component shall be the difference between (1) the current Composite Cost of Purchased Energy weighted by the proportion of current purchased energy to total system net energy, and (2) the Base Purchased Energy Composite Cost of 21.80 cents per kilowatthour weighted by the 2012 Test Year proportion of the purchased energy to total system net energy, adjusted to the sales delivery level and for additional revenue taxes

The Distributed Generation Energy Component shall be the difference between (1) the current Composite Cost of DG Energy weighted by the proportion of current DG energy to total system net energy, and (2) the Base DG Energy Composite Cost of 0.000 cents per kilowatthour weighted by the proportion of the 2012 Test Year DG energy to total system net energy, adjusted to the sales delivery level and for additional revenue taxes.

The Energy Cost Adjustment Factor shall be the sum of the Central Station With Other Generation Component, the Purchased Energy Component and the DG Energy Generation Component.

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Energy Cost Adjustment Clause (Continued)

The revenue tax requirement shall be calculated using current rates of the Franchise Tax, Public Service Company Tax, and Public Utility Commission Fee.

The Adjustment shall be effective on the date of cost change. When a cost change occurs during a customer's billing period, the Adjustment will be prorated for the number of days each cost was in effect.

This Energy Cost Adjustment Clause is consistent with the terms of the Company's operations purchased energy contracts and DG contracts, and may be revised to reflect any revisions or changes in operations purchased energy contracts, and is subject to approval by the Commission.

Target Heat Rates:

1. The target heat rates shall be the 2018 test-year efficiency factors of 0.000000 million BTU per kilowatthour for industrial fuel, 0.011127 million BTU per kilowatthour for diesel fuel, and 0.011127 million BTU per kilowatthour for other company generation sources. The overall target heat rate shall be the weighted average efficiency factor of all sources.
2. The target heat rates for diesel may be reestablished each calendar year, beginning at January 1, 2020. If the prior year's actual sales heat rate for the applicable fuel type is greater than or equal to the target sales heat rate applicable in that year, the target sales heat rate for that fuel type remains unchanged. If the prior year's actual sales heat rate for a fuel type is less than the target sales heat rate applicable in that year, the target sales heat rate for that fuel type shall be reduced by one-half of the difference between the prior year's actual sales heat rate and the target sales heat rate applicable in that year.
3. The triggers for redetermination of the target heat rates are:
 - a. Non-utility firm or non-utility non-firm renewable resources (such as wind or photovoltaics) from which the utility will purchase capacity and/or energy under a Power Purchase Agreement that exceed 500 kW;
 - b. Utility firm and non-firm renewable resources (such as wind or photovoltaics) that exceed 500 kW;

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Energy Cost Adjustment Clause - (Continued)

- c. Additions, retirements or modifications to the generating systems, or modifications to the generating system operating procedures, that are expected to increase or decrease the target heat rates by more than the deadband amount; or
 - d. The calculated heat rate is outside of the deadband around the target heat rate for a significant period or expected to remain outside of the deadband for an indefinite period. Either the Company or the Consumer Advocate may initiate a request for target heat rate redetermination.
4. Timing for Seeking Changes in the Heat Rate Target
- a. The utility may seek a change in the target heat rate in a traditional rate case, as it currently does, when a resource will be added in a rate case test year.
 - b. The utility may also seek a change in the target heat rate when resources identified in Section 3. above will be added to the grid outside of a rate case test year.
5. Process for Utility to Seek a Change to the Heat Rate Target Outside of a Rate Case
- a. In the case of a utility-built firm and non-firm resource, the utility may file a request to change the heat rate target as part of the application for approval to expend funds (in accordance with General Order No. 7) for the resource that would cause the change in heat rate.

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Energy Cost Adjustment Clause - (Continued)

- b. If the utility anticipates that one of the triggers for redetermination of the heat rate target (as identified in Section 3. above) will occur after a rate case test year, the utility should include in its rate case docket a proposal to change the heat rate target at some future time. The proposal to change the heat rate target outside of a test year should be evaluated as part of the rate case docket, except if the trigger is per Section 3d above. The proposed change to the heat rate target should take effect when the addition, retirement or modification is made.
 - c. The proposal to change the heat rate target outside of a test year should also be reflected in the submittal of the new production simulation for short-run avoided energy costs in Docket No. 7310.
6. Justification to Change Heat Rate Target
- a. In its request to change the target heat rate, the utility would need to show that a change in the heat rate target is warranted by production simulation results with and without the proposed resource and the change in heat rate caused by the addition of the resource and/or by changes in other circumstances that impact generation operations.
 - b. Where the change in the heat rate is caused at least in part by an increase in regulating reserve, the utility would need to show that carrying the additional regulating reserve is warranted to maintain system reliability.
7. Effective Date of Change in Target Heat Rate
- a. The change in the target heat rate would be effective after (1) the Commission approves the change and (2) immediately after the resource is placed into service, or when the addition, retirement or modification is made.
 - b. The heat rate targets may be reset in future rate cases at the time of any interim rate increase.

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Energy Cost Adjustment Clause - Continued

8. Application of the Deadbands

- a. The deadband shall be applied around the respective target heat rates beginning with the implementation of the interim decision and order in Docket No. 2017-0150. The deadband shall be ± 50 Btu/kWh-sales. This deadband will apply to all fuel types used by the Company.
- b. Once the revised target heat rates are in effect, the deadband levels described in Sections 8.a above shall apply around the revised target heat rate.

9. Changes to the Deadband

Changes to the deadbands may be proposed in future rate cases.

Reconciliation Adjustment:

In order to reconcile any differences that may occur between recorded revenue and eligible revenue from the Energy Cost Adjustment Clause, the year-to-date recorded revenue from the Energy Cost Adjustment Clause will be compared with the year-to-date eligible revenue from the Energy Cost Adjustment Clause on a quarterly basis. If there is a variance between the year-to-date recorded revenue from the Energy Cost Adjustment Clause and the year-to-date eligible revenue from the Energy Cost Adjustment Clause, a reconciliation adjustment rate shall be added to the rate calculated under the Energy Cost Adjustment Clause to reconcile the revenue variance. This reconciliation adjustment rate shall be applied at the beginning of the second month after the end of the quarter, and shall be set to recover the revenue variance over the estimated sales for the subsequent three months.

The eligible revenue from the Energy Cost Adjustment Clause shall be equal to the eligible revenue for fuel, DG, and purchased energy expenses less the revenue in base rates for fuel, DG, and purchased energy expenses.

The eligible revenue for fuel is calculated for each fuel type each month as:

The recorded sales allocated for that fuel type
multiplied by the adjusted target heat rate
multiplied by the average cost per mmbtu
and then summed across all fuel types.

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Energy Cost Adjustment Clause - Continued

The adjusted target heat rate for each fuel type is established by comparing the applicable target heat rate, adjusted by a plus or minus 50 BTU/kWh sales heat rate deadband versus the year-to-date actual heat rate. The year-to-date actual heat rate is derived by dividing the fuel type's year-to-date MMBtu consumption by the fuel type's share of year-to-date recorded sales. If the year-to-date actual heat rate is greater than the applicable target heat rate plus 50 BTU/kWh, then the adjusted target heat rate is the applicable target heat rate plus 50 BTU/kWh. If the year-to-date actual heat rate is less than the applicable target heat rate less 50 BTU/kWh, then the adjusted target heat rate is the applicable target heat rate less 50 BTU/kWh. If the year-to-date actual heat rate falls between the applicable target heat rate adjusted by a plus or minus 50 BTU/kWh, then the adjusted target heat rate is the year-to-date actual heat rate.

The eligible revenue for DG and purchased energy expenses is equal to the amount of their respective expenses.

The revenue in base rates for fuel, DG, and purchased energy expenses is the amount of revenue from base rates for those expenses, less revenue taxes on that amount.

Recorded revenue from the Energy Cost Adjustment Clause excludes revenue taxes on that amount for the purpose of this reconciliation.

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