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Karen Higzel.  
Chief Clerk of the Commission

Commission, State of Hawaii.  
K. Digest.

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application of)  
HAWAII-AMERICAN WATER COMPANY, INC.)  
For Approval of Rate Increases and )  
Revised Rate Schedules and Rules. )  

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Docket No. 03-0025  
Interim Decision  
and Order No. 20901

INTERIM DECISION AND ORDER

I.

Introduction

On May 5, 2003, HAWAII-AMERICAN WATER COMPANY, INC. ("Applicant" or "HAWC") filed an application requesting commission approval of rate increases and revised rate schedules pursuant to Hawaii Revised Statutes ("HRS") § 269-16. Applicant served a copy of that application on the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate") and the Mayor of the City and County of Honolulu on May 6, 2003, pursuant to Hawaii Administrative Rules ("HAR") § 6-61-91(a).<sup>1</sup>

This interim decision and order addresses whether HAWC should be granted interim relief under HRS § 269-16(d), pending a final decision in this docket.

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<sup>1</sup>HAWC and the Consumer Advocate hereinafter collectively referred to as "Parties".

## II.

### Procedural Background

On February 5, 2003, Applicant filed with the commission its notice of intent to file an application for a rate increase pursuant to HAR § 6-61-85(a).

On April 30, 2003, Applicant filed a motion with the commission, pursuant to HAR §§ 6-61-41 and 6-61-92, requesting commission approval to allow Applicant to utilize calendar year 2004 financial data in its application for a rate increase in lieu of mid-year 2003-2004 test year data as required by HAR § 6-61-87(4)(A).<sup>2</sup>

On May 1, 2003, the Consumer Advocate filed a Statement of No Opposition to Applicant's motion filed on April 30, 2003.

On May 5, 2003, the commission issued Order No. 20165 approving Applicant's request to utilize calendar year 2004 financial data ("2004 Test Year") in its application for a rate increase.

On May 6, 2003, Applicant filed an application in the subject docket requesting commission approval of rate increases and revised rate schedules pursuant to HRS § 269-16.

On May 13, 2003, the Consumer Advocate informed the commission that it had completed its initial review of the application filed on May 6, 2003, and based upon that review, additional information was required from Applicant in order to

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<sup>2</sup>Applicant has annual gross revenues greater than \$2,000,000. As such, Applicant is subject to the requirements of HAR §§ 6-61-87 and 6-61-91(a).

strictly comply with the requirements of HAR Title 6, Chapter 61, Subchapters 6 and 8 and deem the application complete.

By letter dated May 14, 2003 (filed with the commission on May 19, 2003), Applicant stated that its 2002 audited financial statements would be available no later than May 31, 2003, and that it was revising the application to address the other issues raised in the Consumer Advocate's May 13, 2003 filing.

On May 20, 2003, Applicant filed a First Amended Application (hereinafter referred to in this Stipulation as the "Application"), which amended and restated the May 6, 2003 application in its entirety in response to the Consumer Advocate's May 13, 2003 filing and to reflect increased insurance costs.

Applicant served a copy of the Application on the Consumer Advocate and the Mayor of the City and County of Honolulu on May 20, 2003, pursuant to HAR § 6-61-91(a).

On May 23, 2003, the Consumer Advocate informed the commission that it had completed its review of the Application, and based upon that review as well as the representations made by Applicant contained in the May 14, 2003 letter, Applicant had complied with the requirements of HAR Chapter 61, Subchapters 6 and 8. Based upon that review, the Consumer Advocate determined that Applicant strictly complied with the above requirements and did not object to the completeness of the Application subject to Applicant providing a copy of its 2002 audited financial statements by May 31, 2003.

On May 30, 2003, Applicant filed its audited financial statements for 2001 and 2002 as Exhibit 1, Schedule 8, Part 2 of the Application.

On June 13, 2003, Applicant filed a copy of the notice it provided to its customers regarding the public hearing to be held on July 3, 2003, pursuant to HRS §§ 269-16 and 269-12.

On June 27, 2003, pursuant to a Stipulation for Protective Order entered into between the Parties on June 20, 2003, the commission issued Protective Order No. 20267 setting forth the procedures for dealing with privileged and confidential information that may be requested and/or filed in the subject docket.

On July 3, 2003, a public hearing was held on the proposed rate increase, pursuant to HRS §§ 269-16 and 269-12, at the Kaiser High School Cafeteria, wherein the commission heard oral testimony regarding the proposed rate increase.

By letter dated July 14, 2003, the Consumer Advocate filed the executed copies of the protective agreements required under Protective Order No. 20267.

On July 29, 2003, the Parties filed a proposed Stipulated Prehearing Order setting forth the proposed issues, procedures and schedule to govern the proceedings in the subject docket. By Order No. 20374 filed on August 12, 2003, the commission approved, with the exception of the date for the

evidentiary hearing,<sup>3</sup> the Stipulated Prehearing Order filed by the Parties.

Pursuant to the procedural schedule approved by Order No. 20374, the Consumer Advocate submitted formal discovery to obtain information supportive of its independent investigation of the Application, and Applicant provided responses to these discovery requests. In particular, on July 23, 2003, July 25, 2003, July 29, 2003 and July 31, 2003, the Consumer Advocate informally submitted four (4) submissions of information requests on Applicant.<sup>4</sup> Applicant filed its responses to these submissions through various filings on August 6, 2003, August 11, 2003, August 12, 2003, August 13, 2003, August 14, 2003, August 19, 2003, August 21, 2003 and August 26, 2003, with supplemental responses filed on August 18, 2003, August 27, 2003 and September 4, 2003.

By letter dated September 4, 2003, Applicant informally provided the Consumer Advocate with certain additional information.

Pursuant to the amended procedural schedule, on September 2, 2003 and September 4, 2003, the Consumer Advocate filed its fifth and sixth submissions of information requests on

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<sup>3</sup>The Stipulated Prehearing Order filed by the Parties on July 29, 2003 provided that the evidentiary hearing would occur on February 26, 2004 and February 27, 2004, if necessary. Pursuant to Order No. 20374, the Commission modified this provision by allowing the Commission to set the date of the evidentiary hearing in the event no settlement was reached by the Parties.

<sup>4</sup>The information requests were formally filed with the Commission on August 14, 2003.

Applicant, respectively. Applicant filed its responses to these requests on September 16, 2003 and September 17, 2003, respectively.

On October 3, 2003, based on the information provided in the Application and during the discovery process described above, the Consumer Advocate filed its Direct Testimonies, Exhibits and Workpapers ("Direct Testimonies"), setting forth its position on various matters regarding the amount of rate relief to which Applicant should be entitled.

On January 13, 2004, the parties submitted their Stipulation of Settlement Agreement in Lieu of Rebuttal Testimonies, Evidentiary Hearing and Briefs ("Stipulation"). The Stipulation results in a \$245,813 increase in Test Year revenues and a revenue requirement for Applicant of \$7,340,835 (consisting of \$5,965,762 in total operating expenses/revenue deductions and \$1,375,073 in operating income after income taxes based on an 8.85 per cent stipulated rate of return on Applicant's stipulated rate base amount of \$15,537,556).

Pursuant to HRS § 269-16(d), the commission may grant an interim increase, subject to refund and interest, pending a final decision, if the commission believes that the public utility is probably entitled to an increase in rates.

### III.

#### DISCUSSION

Based on the record, the commission finds that HAWC is probably entitled to an increase in its rates on an interim

basis, pursuant to HRS § 269-16(d). In particular, the commission finds that the stipulated rate increase of \$245,813 in additional revenues is reasonable and would be appropriate in order to provide timely rate relief to HAWC while protecting the interests of the utility's customers. The commission also finds that the stipulated rate of return of 8.85 per cent on HAWC's revised average adjusted rate base of \$15,537,556 for test year ending December 31, 2004, as shown on exhibit A of this decision and order, is reasonable. Moreover, without interim relief, HAWC may be denied an opportunity to earn a fair rate of return on its rate base.

Based on the above findings, the commission concludes that HAWC should be granted interim relief, pursuant to HRS § 269-16(d). We also conclude that Exhibit A attached hereto should be adopted and made part of this interim decision and order. The commission emphasizes, however, that the adoption here of various amounts reflected in Exhibit A is for purposes of this interim decision and order only. It does not, in any way, commit the commission to accept any of these amounts in its final decision.

HAWC will be required to refund to its customers any excess collected under this interim decision, together with such interest as provided by HRS § 269-16(d), if the final increase approved by the commission is less than the total interim increase granted in this interim decision and order.



IV.

ORDERS

THE COMMISSION ORDERS:


1. HAWC may increase its rates on an interim basis to such levels as will produce, in the aggregate, \$245,813 in additional revenues for the 2004 Test Year. The interim rate increase shall be effective immediately until the commission issues a final decision and order in this docket.


2. Not later than five (5) days following this Interim Decision and Order, HAWC shall submit a revised schedule of rates and charges, reflecting the increase in rates allowed by this decision and order. HAWC shall serve a copy of the revised schedule upon the Consumer Advocate.

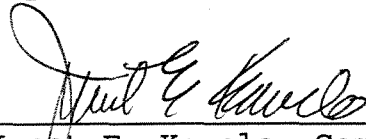
3. Upon the issuance of the final decision and order in this proceeding, any amount collected pursuant to this interim rate increase that is in excess of the increase determined by the final decision and order to be just and reasonable shall be refunded to HAWC's ratepayers, together with interest as provided by HRS § 269-16(d).

DONE at Honolulu, Hawaii this 14th day of April, 2004.

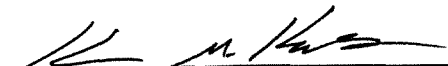
PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

By   
Carlito P. Caliboso, Chairman

By   
Wayne H. Kimura, Commissioner

By   
Janet E. Kawelo, Commissioner

APPROVED AS TO FORM:

  
Kevin M. Katsura  
Commission Counsel

03-0025.sl

**DOCKET NO. 03-0025**  
**REVENUE REQUIREMENTS**  
**TEST YEAR ENDED DECEMBER 31, 2004**

	Present Rates	Additional Amount	Interim Rates
<b>REVENUES</b>			
Residential Revenues	\$ 5,665,486	\$ 196,524	\$ 5,862,010
Commercial Revenue	730,849	25,352	\$ 756,201
Public Authorities Revenues	690,074	23,937	\$ 714,011
Miscellaneous Revenues	8,613	-	\$ 8,613
Total Operating Revenues	<u>\$ 7,095,022</u>	<u>\$ 245,813</u>	<u>\$ 7,340,835</u>
<b>O &amp; M EXPENSES</b>			
Labor	\$ 1,081,573.00		\$ 1,081,573.00
Purchase Water	3,668		3,668
Power & Fuel	296,157		296,157
Chemicals	183,716		183,716
Waste Disposal	186,925		186,925
Management Fees	447,108		447,108
Group Insurance	299,723		299,723
Pension	128,948		128,948
Regulatory Expense	36,583		36,583
Insurance Other Than Group	246,134		246,134
Customer Accounting	143,411	885	144,296
Rents	57,021		57,021
General Office Expense	68,401		68,401
Miscellaneous	282,565		282,565
Repairs & Maintenance	148,625		148,625
Total O & M Expenses	<u>\$ 3,610,558.00</u>	<u>885</u>	<u>\$ 3,611,443.00</u>
Taxes, Other Than Income	\$ 587,162.00	\$ 16,873.00	\$ 604,035.00
Depreciation	1,286,376		1,286,376
Amortization	58,281		58,281
Income Taxes	<u>316,891</u>	<u>88,736</u>	<u>405,627</u>
Total Operating Expense	\$ 5,859,268.00	\$ 106,494.00	\$ 5,965,762.00
Operating Income	<u>\$ 1,235,754.00</u>	<u>\$ 139,319.00</u>	<u>\$ 1,375,073.00</u>
Average Rate Base	<u>\$ 15,537,556.00</u>	<u>0</u>	<u>\$ 15,537,556.00</u>
Return on Rate Base	<u>7.95%</u>		<u>8.85%</u>

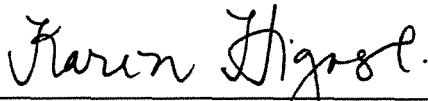
CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Interim Decision and Order No. 20901 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
DIVISION OF CONSUMER ADVOCACY  
P. O. Box 541  
Honolulu, HI 96809

DAVID P. STEPHENSON  
c/o AMERICAN WATER WORKS SERVICE COMPANY INC.  
303 H Street, Suite 250  
Chula Vista, CA 91910

ALAN M. OSHIMA, ESQ.  
KENT D. MORIHARA, ESQ.  
OSHIMA, CHUN, FONG & CHUNG LLP  
841 Bishop Street, Suite 400  
Honolulu, HI 96813

  
\_\_\_\_\_  
Karen Higashi

DATED: April 14, 2004