

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
)
HAWAII WATER SERVICE COMPANY, INC.)
)
For Approval of Rate Increases and)
Revised Rate Schedules, and to)
Enter into Financing Arrangements.)
_____)

DOCKET NO. 03-0275

ORDER NO. 20914

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DEPT OF PUBLIC UTILITIES
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STATE OF HAWAII

Filed April 16, 2004
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Karen Higashi
Chief Clerk of the Commission

ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.
K. Higashi

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ORDER

I.

Background

HAWAII WATER SERVICE COMPANY, INC. ("Applicant" or "HWSCI"), fka KAA NAPALI WATER CORPORATION, is a public utility that provides water service in its service area of Kaanapali, island of Maui, pursuant to a commission-issued certificate of public convenience and necessity ("CPCN").¹ HWSCI, a Hawaii corporation, is a wholly-owned subsidiary of California Water Service Group ("CWSG"), a holding company incorporated in Delaware. Besides HWSCI, CWSG's operating subsidiaries include California Water Service Company (water service), New Mexico Water Service Company (water and wastewater services), and Washington Water Service Company (water service).

HWSCI requests the commission's approval to: (1) engage in certain financing, pursuant to Hawaii Revised Statutes ("HRS") § 269-17; (2) increase its rates and revise its rate schedules,

¹Decision and Order No. 6230, filed on June 9, 1980, in Docket No. 3700 (CPCN).

pursuant to HRS § 269-16 and Hawaii Administrative Rules ("HAR") § 6-61-87; and (3) submit unaudited balance sheets in lieu of the audited balance sheet required by HAR § 6-61-75(b)(1).²

HWSCI also requests that the commission: (1) bifurcate HWSCI's financing and rate increase requests, by addressing the financing request first, "if such action will expedite the financing approval" process ("request to bifurcate"); and (2) hold a public hearing on HWSCI's request for a general rate increase, as mandated by HRS §§ 269-12(c) and 269-16(c).³

HWSCI served copies of its application upon the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy ("Consumer Advocate"). On March 17, 2004, the Consumer Advocate filed preliminary position statements: (1) objecting to the completeness of HWSCI's application, pursuant to HRS § 269-16(d); and (2) finding reasonable HWSCI's request to bifurcate. On March 19 and April 12, 2004, HWSCI responded to the Consumer Advocate's objection.

The Consumer Advocate notes that certain information is not included in HWSCI's application. HWSCI concurs with the Consumer Advocate's assessment, and: (1) provides the additional information on HWSCI's outstanding notes; and (2) to the extent that the information on dividends paid is presently not available, requests a waiver of this information.⁴

²HWSCI's application, filed on February 26, 2004, as amended. See HWSCI's letters, dated March 4, 5, and 19, 2004, and April 12, 2004.

³Id.

⁴See letters dated March 19 and April 12, 2004.

This order addresses the various matters raised by HWSCI and the Consumer Advocate (collectively, the "Parties").

II.

Waiver of Hearing

The commission is required to "hear and determine [the Consumer Advocate's] objection within twenty-one days after the same is filed[,]" in compliance with HRS § 269-16(d). HWSCI, as part of its response, waives its right to a hearing. The commission approves HWSCI's waiver.

III.

Discussion

A.

Balance Sheet

HWSCI's unaudited balance sheets for the calendar year 2002 and for the eleven (11)-month period ending November 30, 2003 are attached as Exhibits D-1 and D-2 to its application. HWSCI states that its balance sheet for the calendar year 2003, once completed, will be filed with the commission.

HWSCI seeks permission to submit its unaudited balance sheets in lieu of the audited balance sheet required by HAR § 6-61-75(b)(1). HWSCI makes its request pursuant to HAR § 6-61-92.⁵

⁵HAR § 6-61-92 authorizes the commission to waive certain requirements governing rate increase applications if the requirements "would impose a financial hardship on applicant or be unjust or unreasonable."

In support of its request, HWSCI states that:

1. The accounting records and financial statements of CWSG and California Water Service Company, because of their size, are audited quarterly by KPMG, CWSG's independent auditor. A copy of CWSG's latest annual report, for the year ended 2002, includes CWSG's audited financial statements, and is attached as Exhibit O to the application.

2. KPMG's estimated cost to independently audit HWSCI is approximately \$60,000 per year, or about \$12 per customer each year. The auditing of HWSCI's finances on a regular basis "would place an unnecessary burden on its ratepayers without an obvious benefit."

The Consumer Advocate does not object to HWSCI's request, provided that HWSCI "makes available for review all documentation supporting Applicant's financial statements, including all books and records." HWSCI concurs with the Consumer Advocate's condition.

The commission finds good cause to approve HWSCI's request, pursuant to HAR § 6-61-92.

B.

Note and Dividends

The Consumer Advocate notes two (2) deficiencies in HWSCI's application that should be remedied before the application is deemed complete:

1. For the note payable to HWSCI's parent entity, information on the "date of issue, date of maturity, interest

rate, or amount of interest expense during the last calendar year[,]" consistent with HAR § 6-61-75(a)(5).

2. The rate and amount of dividends HWSCI has paid out during the five (5) previous calendar years, consistent with HAR § 6-61-75(a)(7). If HWSCI has not paid dividends during the five (5) previous years, HWSCI should so state.

HWSCI provides the necessary information on the "one outstanding note," by its letter dated April 12, 2004.

With respect to the dividends paid, in May 2003, CWSG: (1) closed on its purchase of all the outstanding stock of Kaanapali Water Corporation; and (2) changed the entity's name to HWSCI.⁶ From April 30, 2003 through December 31, 2003, the calendar year 2003 period when CWSG owned HWSCI, "[t]he amount of dividends paid by HWSCI to [CWSG] . . . was \$86,730."

HWSCI represents that it "has not yet been able to obtain information from [CWSG's predecessor-in-interest] regarding the amount of any dividends paid during its period of ownership." HWSCI will continue its efforts to obtain this information. Nonetheless, HWSCI seeks a waiver of the requirement set forth in HAR § 6-61-75(a)(7) that its application include the rate and amount of dividends paid during the previous five (5) calendar years, "so that [its] application can be deemed complete." Moreover, HWSCI's request "is not intended to be a precedent for future rate cases." HWSCI represents that "the

⁶Decision and Order No. 20102, filed on March 27, 2003, in Docket No. 02-0372; and HWSCI's counsel's letter, dated May 6, 2003.

Consumer Advocate will not oppose the request for waiver in this case, based upon the circumstances[.]"

The commission finds good cause to approve HWSCI's request, pursuant to HAR § 6-61-92.

C.

Bifurcate

HAR § 6-61-39 authorizes the commission to "separate matters in issue for hearing in two or more separate proceedings, if it finds that consolidation or separation will be conducive to the proper dispatch of its business and to the ends of justice and will not unduly delay the proceedings."

The commission: (1) finds that HWSCI's request to bifurcate is consistent with the intent of HAR § 6-61-39; and (2) approves HWSCI's request to bifurcate.

The Parties are instructed to: (1) commence the discovery process forthwith; (2) submit a stipulated prehearing order setting forth the issues and agreed upon procedural schedule for HWSCI's financing request; and (3) submit a separate stipulated prehearing order setting forth the issues and agreed upon procedural schedule for HWSCI's request for a general rate increase.⁷ The separate procedural schedules reflect the commission's intent to issue its written decision on HWSCI's financing request first.

⁷If intervenor or participant status is granted to any interested person, the commission intends to incorporate such party's respective deadline dates into the prehearing orders it ultimately approves.

D.

Public Hearing

The commission will hold a public hearing on HWSCI's request for a general rate increase, on the island of Maui. The parties have been notified of the date, time, and location of the public hearing.⁸

IV.

Orders

THE COMMISSION ORDERS:

1. HWSCI's waiver of its right to a hearing on the Consumer Advocate's objection is approved.

2. HWSCI's request to submit its unaudited balance sheets in lieu of the audited balance sheet required by HAR § 6-61-75(b)(1), is approved. HWSCI shall make available for review all documentation supporting its financial statements, including all books and records.

3. HWSCI's request to waive certain information required by HAR § 6-61-75(a)(7), to the extent that such information on dividends paid by its previous owner is presently not available, is approved; provided that HWSCI, in good-faith, continues its efforts to obtain this information.

4. HWSCI's request to bifurcate is approved.

5. Unless ordered otherwise, within twenty (20) days after the date of this order, HWSCI and the Consumer Advocate

⁸See commission staff's letter, dated April 15, 2004, transmitting copies of the Notice of Public Hearing to the Parties.

shall submit to the commission a stipulated prehearing order setting forth the issues and procedural schedule for HWSCI's financing request.

6. Unless ordered otherwise, within ten (10) days following the conclusion of the public hearing, HWSCI and the Consumer Advocate shall submit to the commission a stipulated prehearing order setting forth the issues and procedural schedule for HWSCI's request for a general rate increase.

7. If the Parties are unable to stipulate to one or both prehearing orders, above, each Party shall submit a proposed prehearing order for the commission's consideration by the applicable deadline date.

8. Consistent with HRS § 269-16(d), the filing date of HWSCI's complete application is April 12, 2004, the filing date of HWSCI's most recent correspondence that supplements its application.

DONE at Honolulu, Hawaii this 16th day of April, 2004.

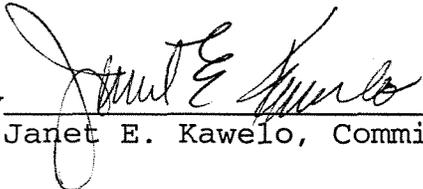
PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Carlito P. Caliboso, Chairman

By 
Wayne H. Kimura, Commissioner

APPROVED AS TO FORM:


Michael Azama
Commission Counsel

By 
Janet E. Kawelo, Commissioner

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Order No. 20914 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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Karen Higashi

DATED: April 16, 2004