

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
THE GAS COMPANY, LLC)
For Approval of a New Utility)
Residential Rate on the island of)
Lanai, Maui Division.)
Transmittal No. 05-02.)
_____)

DOCKET NO. 05-0131

DECISION AND ORDER NO. 21913

Filed July 8, 2005
At 9 o'clock A.M.

Karen Higashi.
Chief Clerk of the Commission

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

K. Higashi.

OFFICE OF THE CLERK
PUBLIC UTILITIES COMMISSION
STATE OF HAWAII

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DECISION AND ORDER

The commission approves THE GAS COMPANY, LLC's ("TGC") request to establish a rate schedule to provide gas utility service to residential customers on the island of Lanai.

I.

Background

TGC proposes to amend its rate schedule for the purpose of providing gas utility service to residential customers on the island of Lanai, by Transmittal No. 05-02, filed on May 12, 2005.¹ TGC makes its request in accordance with Hawaii Revised Statutes ("HRS") §§ 269-12(b) and 269-16(b) and Hawaii Administrative Rules ("HAR") § 6-61-111.

TGC served copies of its transmittal upon the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy ("Consumer Advocate"). On June 1, 2005, the

¹TGC's Transmittal No. 05-02, Exhibits A to E, and Certificate of Service (collectively, "Transmittal No. 05-02").

commission suspended TGC's transmittal, in response to the Consumer Advocate's letter, dated May 27, 2005.²

On June 3 and 6, 2005, the Consumer Advocate filed its Statement of Position, stating its non-objection to the commission's approval of TGC's transmittal, subject to two (2) conditions. On June 8, 2005, the Consumer Advocate filed an addendum to its Statement of Position, which removes a paragraph from pages 9 and 10 of its Statement of Position.

TGC accepts the Consumer Advocate's two (2) proposed conditions, and reiterates its request to approve the amendment of its rate schedule to include gas utility service for its Lanai residential customer base.³

II.

TGC's Rate Schedule

TGC is duly franchised to manufacture and supply gas within the State of Hawaii. TGC engages in both regulated and non-regulated gas utility operations statewide. On the island of Lanai, TGC conducts only non-regulated gas operations.⁴

²See Order No. 21848, filed on June 1, 2005. The Consumer Advocate, by its correspondence, requested an extension of time, from May 31, 2005 to June 3, 2005, to file a protest or its Statement of Position. TGC did not object to the Consumer Advocate's request for additional time.

³TGC's response, filed on June 13, 2005.

⁴See Decision and Order No. 20354, filed on July 25, 2003, at 5, in Docket No. 03-0051, *In re Citizens Comm. Co., dba The Gas Co., K-1 USA Ventures, Inc., and Hawaii Gas Co., L.L.C., nka The Gas Co., LLC*.

TGC requests the commission's approval to establish a residential service rate schedule, known as Schedule 120A, for the provision of residential gas utility service on the island of Lanai, through TGC's Maui Gas Division. A copy of TGC's proposed Schedule 120A is attached herein. TGC's proposed Schedule 120A is supported by the cost data attached as Exhibits A through D of its transmittal.

A.

The Project

TGC explains:

1. Currently, TGC does not have a gas utility rate for the island of Lanai, "as there were no customers on the island of Lanai to take advantage of that rate. The Palms at Manele project (the 'Project') now presents TGC with the opportunity to expand its utility operations to the island of Lanai."⁵

2. The Project's initial phase "calls for a thirty-eight (38) home subdivision adjacent to the Manele Terraces and Golf Club. All of the homes are designed to include gas ranges, barbeques, gas dryers, gas water heaters, and spa heaters. Once all of the homes are occupied it is estimated that the [P]roject will consume 6,384 therms per year."⁶

3. TGC's proposed utility system to serve the Project "will consist of one (1) 2000 gallon tank and require

⁵TGC's Transmittal No. 05-02 at 3.

⁶Id. at 4.

approximately 4,700 feet of medium pressure gas piping and associated low pressure service lines to feed 38 separately metered homes."⁷ TGC's net capital costs to provide the utility infrastructure for the Project, after the developer's contribution-in-aid-of-construction of \$56,116, is estimated at \$43,208.

B.

Schedule 120A

TGC proposes to establish: (A) a commodity charge of \$2.9511 per therm; and (B) a monthly customer charge of \$6.75. (See Exhibit 1, attached.)

In calculating the Schedule 120A rates, TGC states that: (1) it utilized the Project's projected consumption and customer count; and (2) "it determined that TGC's [2004] Molokai utility operations would closely reflect the operations to be implemented on the island of Lanai[,] " based on similar traits of utility service identified by TGC.⁸

Thus, using its Molokai utility operations as a proxy, TGC calculated its Schedule 120A rates under a 2005 projected test year, as adjusted to achieve its authorized rate of return of 9.16 per cent:

Using Molokai's "present rate," assuming an estimated annual consumption of 6,384 therms of utility gas, the expected rate of return was calculated to be 5.16%. Applying TGC's current

⁷Id.

⁸See id.

allowed rate of return of 9.16%, meant that present rates needed to be increased by \$3,774 or a 16.69% change, to reflect what the Lanai residential utility rate should be.

On a per therm basis this equates to establishing the residential utility rate for the island of Lanai at **\$2.9511 per therm**, in order to allow TGC the opportunity to achieve a return on rate base of 9.16%.

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As calculated above, the **per therm rate is \$2.9511**. The **Customer Charge of \$6.75** is the same as the customer charge applied to Molokai's utility residential rate.⁹

C.

TGC's Position

In support of its Schedule 120A, TGC states that:

1. Schedule 120A does not involve a rate increase, and thus, may be established after thirty (30)-day prior notice, consistent with HRS § 269-16(b).

2. "[T]he potential revenue generated from the Lanai utility residential customers is sufficient to cover the cost to serve the utility residential customers on the island of Lanai, without the need for any cross-subsidization by other Maui utility ratepayers, while still allowing TGC the opportunity to earn its allowed rate of return of 9.16%."¹⁰

⁹Id. at 6 (numbering, footnote, and citation therein omitted) (boldface added).

¹⁰Id. at 7.

III.

Consumer Advocate's Position

The Consumer Advocate notes that TGC's proposed: (1) monthly customer charge of \$6.75 is the current, approved monthly customer charge for residential customers on all other islands; and (2) commodity charge is based on the current commodity rate of \$2.36 authorized for residential gas service on the island of Molokai, increased by \$0.6133 for the change in fuel costs as of April 2005, as adjusted for TGC's results of operation based on certain projections, including TGC's authorized 9.16 per cent rate of return on rate base. TGC, in essence, utilizes 2001 data as the basis for developing its proposed customer and commodity charges for the Lanai residential customer class.¹¹

The Consumer Advocate, following its review of TGC's supporting cost data, is:

1. Not convinced that TGC's use of its Molokai 2004 operations as a proxy constitutes a reasonable basis for determining the initial rates for gas service on the island of Lanai.¹²

2. Unable to determine the reasonableness of:
(A) TGC's 2005 rate base components and depreciation expense; or

¹¹Consumer Advocate's Statement of Position, at Section I(B)(4), as amended, at 9. The Consumer Advocate cites to TGC's 2001 test year rate case, Docket No. 00-0309.

¹²Consumer Advocate's Statement of Position, Section I(B)(2), at 7 - 8.

(B) TGC's projected sales volume for the island of Lanai in 2005.¹³

The Consumer Advocate asserts that, under this scenario, the potential exists for TGC's other gas utility customers to cross-subsidize the gas utility service provided to TGC's Lanai residential customers.

Nonetheless, the Consumer Advocate does not object to the commission's approval of TGC's Schedule 120A rates, reasoning that:

1. The extent of cross-subsidization, if any, "may be insignificant given the projected annual sales of approximately \$26,400 as compared to the total reported 2004 revenues for all [TGC] divisions amount to \$67,790,738[,]" citing to TGC's 2004 annual financial reports, by divisions.¹⁴

2. TGC's Schedule 120A rates are its proposed initial rates for the island of Lanai. Thus, since there is no historical Lanai-based data upon which to determine the reasonableness of TGC's projected operating expenses, "the Consumer Advocate is unable to suggest an alternate rate for the provision of utility gas service on Lanai that is based on reliable data."¹⁵

3. The commission's approval of TGC's Schedule 120A rates will authorize TGC to begin its provision of gas utility service on the island of Lanai.

¹³Id. at Section I(B)(2) and (3), at 8.

¹⁴Id. at 10 (footnote omitted).

¹⁵Id.

Concomitantly, the Consumer Advocate recommends that:

1. TGC file monthly and annual financial reports for its Lanai division, in the same detail as that required for TGC's other island operations. This information will enable the commission and Consumer Advocate to monitor TGC's Lanai division's operating results and evaluate the reasonableness of TGC's initial rates on a prospective basis.

2. TGC file the supporting documentation for the plant-in-service and associated contributions-in-aid-of-construction once the facilities are constructed and used and useful for TGC's Lanai-based utility operations.

IV.

Discussion

TGC seeks to establish its initial Schedule 120A rates for the purpose of providing gas utility service to residential customers on the island of Lanai. The rate increase provisions relating to a public hearing and contested case proceeding are not implicated by TGC's transmittal. HRS § 269-16(b). In addition, TGC's proposed initial Schedule 120A rates do not appear to unreasonably discriminate between localities or customers under substantially similar conditions. See id. Moreover, TGC's projected annual sales of approximately \$26,400 from its Lanai utility division constitute a minute portion of its total operating revenues, i.e., all divisions combined.

The commission: (1) adopts the Consumer Advocate's proposed conditions; (2) finds reasonable TGC's initial

Schedule 120A rates; and (3) will allow TGC's tariff changes to take effect, effective from the date of this Decision and Order.

V.

Orders

THE COMMISSION ORDERS:

1. TGC's proposed tariff changes to its rate schedule, as reflected in its Transmittal No. 05-02, filed on May 12, 2005, are allowed to take effect, effective from the date of this Decision and Order.

2. Within three (3) business days from the date of this Decision and Order, TGC shall file its initial tariff sheets for its Schedule 120A rates, incorporating the applicable issued and effective dates.

3. TGC shall file its monthly and annual financial reports for its Lanai division, in the same detail as that required for TGC's other island operations.

4. TGC shall file the supporting documentation for the plant-in-service and associated contributions-in-aid-of-construction, within thirty (30) days after the facilities are constructed and used and useful for TGC's Lanai-based utility operations.

5. TGC shall serve copies of its reports and supporting documentation noted in Ordering Paragraphs No. 3 and No. 4, above, upon the Consumer Advocate.

6. TGC shall conform to all of the commission's orders set forth, above. TGC's failure to adhere to the

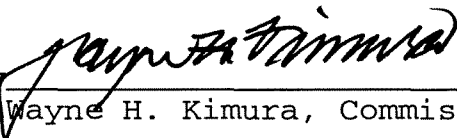
commission's orders shall constitute cause for the commission to void this Decision and Order, and may result in further regulatory action as authorized by law.

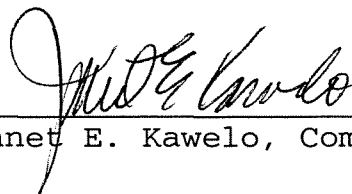
7. This docket is closed, unless ordered otherwise by the commission.

DONE at Honolulu, Hawaii JUL - 8 2005.


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:


Michael Azama
Commission Counsel

05-0131.sl

MAUI GAS DISTRICT

SCHEDULE NO. 120A
RESIDENTIAL SERVICE RATE

AVAILABILITY:

To single-family residences including separately metered apartment or condominium units. Not available where residence and business are combined.

TERRITORY:

Island of Lanai.

RATE:

Customer Charge: per month **\$6.75**

Commodity Charge: (Applicable to all therms usage in the billing month.)

All therms usage: **\$2.9511 per therm**

MINIMUM MONTHLY CHARGE:

Customer Charge.

APPLICABLE CLAUSES MODIFYING THE RATE:

FIRM SERVICE FUEL CLAUSE: **RULE 19.**

Docket No. _____
D&O No. _____
Filed: _____

Issued: _____
By Jim R. Yates, President
Effective: _____

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 21913 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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DIVISION OF CONSUMER ADVOCACY
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Counsel for THE GAS COMPANY, LLC



Karen Higashi

DATED: JUL - 8 2005