

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application of)  
KRWC CORPORATION, dba KOHALA RANCH )  
WATER COMPANY )

DOCKET NO. 05-0334

For Review and Approval of Rate )  
Increases and Revised Rate )  
Schedules. )

DECISION AND ORDER NO. 23404

Filed May 1, 2007  
At 2 o'clock P.M.

Broderick K. Kane  
for Chief Clerk of the Commission

DIV. OF CONSUMER ADVOCACY  
DEPT. OF COMMERCE AND  
CONSUMER AFFAIRS  
STATE OF HAWAII

2007 MAY -3 A 8:40

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Broderick K. Kane

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DECISION AND ORDER

By this Decision and Order, the commission approves the Stipulation of Settlement Agreement in Lieu of Rebuttal Testimonies, filed on March 23, 2007 ("Stipulation"), by KRWC CORPORATION, dba KOHALA RANCH WATER COMPANY ("KRWC") and the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate").<sup>1</sup>

In doing so, the commission approves an overall rate increase of \$572,267, or approximately 60.24 percent, based on a revenue requirement of \$1,522,249 and operating expenses of \$1,314,904, for the 2006 calendar test year ("Test Year").

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<sup>1</sup>Pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62, the Consumer Advocate is an *ex officio* party to all commission proceedings. KRWC and the Consumer Advocate are collectively referred to as the "Parties."

I.

Background

A.

KRWC is a public utility authorized to provide potable water service in Kohala, Hawaii. KRWC's predecessor-in-interest obtained its Certificate of Public Convenience and Necessity pursuant to Decision and Order No. 8816, filed on July 7, 1986, in Docket No. 5523. KRWC's sole shareholder is Mr. Robert Acree.<sup>2</sup> KRWC currently provides potable water service to approximately three hundred and forty-eight (348) customers in its service area, which generally covers the Kohala Estates, Kohala Ranch, Kohala Waterfront, and the Kohala by the Sea developments.

B.

Application

KRWC seeks commission approval for an increase in the potable water service charges applicable to KRWC's customers. On January 5, 2006, KRWC filed an application requesting commission approval of rate increases and revised rate schedules and rules, pursuant to Hawaii Revised Statutes ("HRS") § 269-16 and Subchapter 8 of the Hawaii Administrative Rules ("HAR"),

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<sup>2</sup>Mr. Acree acquired KRWC through a series of transactions approved by the commission in Decision and Order No. 17580, filed on March 2, 2000, in Docket No. 99-0390.

Title 6, Chapter 61.<sup>3</sup> KRWC requests a general rate increase of approximately \$776,079, or approximately 96.5%, over total revenues at present rates. The requested increase is based on an estimated total revenue requirement of \$1,580,500 for the Test Year. According to KRWC, it has operated at a net loss for the last ten (10) years.<sup>4</sup> For the calendar year 2004 and the nine (9)-month period which ended on September 30, 2005, KRWC stated that it generated net losses of (\$390,849) and (\$314,910), respectively.<sup>5</sup>

On March 8, 2006, pursuant to HRS § 269-16(f)(2), the commission held a public hearing at the Waimea Civic Center to take public comments on KRWC's Application ("Public Hearing").

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<sup>3</sup>Application; Exhibits KRWC 1 through KRWC 10; Exhibits KRWC-T-100 and KRWC-T-200; Workpapers; Verification; and Certificate of Service, filed on January 5, 2006 (collectively, the "Application").

KRWC served its Application on the Consumer Advocate, an ex officio party to this proceeding, pursuant to HRS § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62.

By Order No. 22236, filed on January 24, 2006, the commission approved KRWC's requests to submit unaudited financial information in lieu of an audited balance sheet and to utilize a 2006 calendar Test Year in connection with its application for general rate increase.

<sup>4</sup>Application at 3.

<sup>5</sup>Id.

C.

Intervention

Following the Public Hearing, within the time frame specified by HAR § 6-61-57(1),<sup>6</sup> motions to intervene were filed by Carolyn Pomeroy on March 15, 2006, Kohala By the Sea Association ("KBTS") on March 17, 2006, Andrew Czajkowski on March 17, 2006, and Melanie Biddle on March 20, 2006. By Order No. 22454, the commission denied the motions to intervene filed by KBTS, Carolyn Pomeroy, Andrew Czajkowski, and Melanie Biddle, and granted KBTS participation without intervention, limited to the filing of written testimonies relating to the issue of the "Firewise" safety program.<sup>7</sup> On May 19, 2006, KBTS filed motions for reconsideration or clarification of Order No. 22454 and for stay, arguing that full intervention status should have been granted to KBTS. KBTS' motion for reconsideration was denied and its motion

<sup>6</sup>Pursuant to HAR § 6-61-57(1), a timely motion to intervene in this docket must have been filed "not later than ten days after the last public hearing held pursuant to the published notice of the hearing," i.e., in this instance, by March 20, 2006. See also HAR § 6-61-22.

<sup>7</sup>The commission further clarified that KBTS' participation was not "permit[ting] a person to intervene" within the meaning of HRS § 269-16(f)(3), and would not extend the commission's deadline from six months to nine months, as required under HRS § 269-16(f)(3). Order No. 22454 at 14.

The "Firewise" program is a national program supported by the United States Forest Service, the Department of the Interior, the United States Fire Administration and the Federal Emergency Management Agency, with additional support from various wildlife and fire protection groups. The goal of a "Firewise" community is fire mitigation and prevention, primarily through strategic landscaping. Written Testimony of Fabio Franzo, filed June 30, 2006 ("KBTS' Written Testimony").

for stay dismissed as moot by Order No. 22530, filed on June 13, 2006.<sup>8</sup>

D.

Regulatory Schedule

Stipulated Procedural Order No. 22353, filed on March 24, 2006, governs the regulatory schedule for this proceeding. The schedule provided for submission of information requests ("IRs"), responses to IRs, submission of supplemental IRs and responses to the supplemental IRs. In addition, it provided for the submission of direct and rebuttal testimonies.

By letter dated May 31, 2006, the Parties requested to amend the regulatory schedule that was approved by Order No. 22353, to provide the Consumer Advocate with additional time to file its direct testimonies.<sup>9</sup> In Order No. 22534, filed on June 15, 2006, the commission approved the Parties' request to extend the deadline and determined that the Parties' failure to strictly comply with the procedural schedule caused the deadline

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<sup>8</sup>In addition, on September 29, 2006, Palila Growers LLC filed a Motion for Enlargement of Time to Intervene and Motion to Intervene of Palila Growers, LLC in which it argued that "KRWC, however well intentioned or unwittingly, lulled [Palila] into resting on its right to timely move for intervention." By Order No. 22983, filed on October 27, 2006, the commission denied Palila's motion for enlargement of time and dismissed its motion to intervene as moot.

<sup>9</sup>See Letter from Cheryl S. Kikuta, Utilities Administrator, Consumer Advocate (May 31, 2006).

by which the commission must render a decision on KRWC's Application from six months to nine months.<sup>10</sup>

On June 30, 2006, the Consumer Advocate filed its direct testimonies, exhibits, and workpapers ("Direct Testimonies") setting forth its position on KRWC's Application.<sup>11</sup>

Subsequent to the filing of the Consumer Advocate's Direct Testimonies, the Parties conferred and reached agreement, in principle, on KRWC's overall revenue requirements and rate structure, for the purpose of the commission granting interim relief only. The Parties submitted a Stipulated Interim Relief Letter in Lieu of Evidentiary Hearing on September 6, 2006, as amended on September 14, 2006 ("Stipulated Interim Relief Letter").<sup>12</sup>

The agreement reached by the Parties in the Stipulated Interim Relief Letter was the basis for the commission's decision

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<sup>10</sup>See Order No. 22534 at 5.

<sup>11</sup>By letter dated April 28, 2006, the Consumer Advocate requested an extension of time, from April 28, 2006, to May 31, 2006, to file its Direct Testimonies. The commission approved this request by letter dated May 9, 2006. By letter dated May 31, 2006, the Parties requested a further amendment of the stipulated regulatory schedule approved by Stipulated Procedural Order No. 22353 to provide the Consumer Advocate additional time, until June 30, 2006, to file its Direct Testimonies. By Order No. 22534, the commission, among other things, approved the Parties' request for an extension of time, to June 30, 2006, by which the Consumer Advocate must file its Direct Testimonies.

<sup>12</sup>In the Stipulated Interim Relief Letter, the Parties stated that subsequent to the commission granting interim relief pursuant to Decision and Order No. 23013, the Parties would informally confer with KBTS to reach agreement to amend Stipulated Procedural Order No. 22353 to address all outstanding issues related to the Application. KRWC states that since the Parties have been able to informally resolve all outstanding Phase II issues without the need for any additional procedural steps, it is no longer necessary to amend Stipulated Procedural Order No. 22353.

in Interim Decision and Order No. 23013, filed on November 3, 2006 ("Interim Decision and Order No. 23013"), in which the commission permitted KRWC to increase its rates, on an interim basis, to such levels as will produce, in the aggregate \$353,659, or 37.23 percent over revenues at present rates ("Interim Rate Increase"). The commission determined that KRWC was probably entitled to, at the minimum, the level of relief granted in Interim Decision and Order No. 23013, and further, that such Interim Rate Increase met KRWC's need for immediate relief while protecting the interests of KRWC's ratepayers. Such interim rates shall be effective from the date of Interim Decision and Order No. 23013, until the commission issues a final decision in this docket.

Interim Decision and Order No. 23013 also provided, among other things, that upon issuance of a final decision and order in this docket, any amount collected pursuant to the Interim Rate Increase in excess of the increase determined in the final decision and order to be just and reasonable, shall be refunded to KRWC's ratepayers, together with interest, as provided by HRS § 269-16(d).<sup>13</sup>

In the interest of expediency, the Parties agreed to bifurcate the instant proceeding into two phases, i.e., Phase I and Phase II. The purpose of Phase I is to address KRWC's revenue requirements for the purposes of granting interim rate relief only. The purpose of Phase II is to address all other remaining issues or matters, including, without limitation,

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<sup>13</sup>Interim Decision and Order No. 23013 at 15.



memorializing the Parties' stipulated proposed final rates and rate structure in detail, commencing further discussions relating to KRWC's proposed rules and regulations, and addressing KBTS' Firewise issue and other outstanding matters affecting KRWC's Application in this proceeding. Accordingly, this Decision and Order will address those outstanding Phase II issues.

E.

Stipulated Issues

On March 23, 2007, the Parties filed their Stipulation in which they informed the commission that the Parties had reached a final settlement agreement on all issues and wished to memorialize their proposed resolution of all issues in the Stipulation.

As set forth in the Stipulation and in Stipulated Procedural Order No. 22353, the Parties agreed that the issue to be determined is whether KRWC's proposed rate increase is reasonable. In making this determination, the Parties must also establish whether:

1. The proposed tariffs, rates and charges are just and reasonable.
2. The revenue forecasts for the Test Year ending December 31, 2006 at present and proposed rates are reasonable.
3. The projected operating expenses for the Test Year are reasonable.

## II.

### Discussion

HAR § 6-61-35 provides that "[w]ith the approval of the commission, any procedure in a contested case may be modified or waived by stipulation of the parties and informal disposition may be made of any contested case by stipulation, agreed settlement, consent order, or default." HAR § 6-61-35.

The commission views the Stipulation as an attempt by the Parties to resolve all issues in this docket without the need for further discovery and the filing of rebuttal testimonies, pursuant to HAR § 6-61-35. The commission also considers the Stipulation to be a proposed resolution of all issues in this docket. Specifically, the Stipulation states, in relevant part, that:

The Parties agree that the following provisions of this Stipulation are binding between them with respect to the resolution of the specific issues and matters of disagreement in the subject docket. In all respects, it is understood and agreed that the agreements evidenced in this Stipulation represent compromises by the Parties to fully and finally resolve all issues in the subject docket on which they had differences for the purpose of simplifying and expediting this proceeding, and are not meant to be an admission by either of the Parties as to the acceptability or permissibility of matters stipulated to herein. The Parties reserve their respective rights to proffer, use and defend different positions, arguments, methodologies, or claims regarding the matters stipulated to herein in other dockets or proceedings. Further, the Parties agree that nothing contained in this Stipulation shall be deemed to, nor be interpreted to, set any type of precedent, or be used as evidence of either Parties' position in any future regulatory proceeding, except as necessary to enforce this Stipulation.

Stipulation at 8-9.

The Stipulation also states that "[e]ach provision of this Stipulation is in consideration and support of all other provisions, and is expressly conditioned upon acceptance by the [c]ommission of the matters expressed in this Stipulation in their entirety."<sup>14</sup>

In considering the Stipulation, the commission has the independent obligation, after reviewing such Stipulation, to determine if its provisions are reasonable and in the public interest. While the commission strives to respect the basic underlying agreements and conditions made by the parties as expressed in the Stipulation, given its statutory responsibilities, the commission must undertake an independent review to, among other things, ensure that the interests of the public (particularly KRWC's customers affected by the rate increase) are protected.

Upon its review, the commission finds the proposed agreements and conditions set forth in the Parties' Stipulation to be reasonable and in the public interest. The commission also finds that its approval of the Stipulation in its entirety will assist in expediting and facilitating the ratemaking process. Accordingly, the commission concludes that the proposed agreements and conditions set forth in the Parties' Stipulation

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<sup>14</sup>Stipulation at 35.

should be approved in their entirety and made a part of this Decision and Order.<sup>15</sup>

The Parties should be advised, however, that commission review and approval of the Stipulation is based primarily on the Parties' representation that there are no remaining differences in this proceeding and that the Parties desire to resolve and dispose of the entire case by means of the Stipulation. Accordingly, the commission's approval of the Stipulation in its entirety shall not be used or cited by any party or person as precedent in any other proceeding before the commission or before any court of law for any purpose, except in furtherance of the purposes and results of the Stipulation. As discussed below, the commission will from time to time state in this Decision and Order that the stipulated estimates are either reasonable or acceptable. Such statements shall not be read or construed as necessarily approving the methodology by which the stipulated estimates were derived, and the commission will, therefore, not be bound by the stipulated estimates in future rate cases.

A.

Summary of Stipulation

KRWC originally sought a test year revenue requirement of \$1,580,500. In its Direct Testimony, the Consumer Advocate proposed a Test Year revenue requirement amount of \$1,522,223.

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<sup>15</sup>The Parties note that "[i]n the event the [c]ommission declines to adopt parts or all of the matters agreed to by the Parties and as set forth in this Stipulation, the Parties reserve the right to pursue any and all of their respective positions through further negotiations and/or additional filings and proceedings before the [c]ommission." See Stipulation at 36.

The Parties settled on a Test Year revenue requirement amount of \$1,522,249, resulting in a Test Year revenue increase of \$572,267, or approximately 60.24 percent from revenues at present rates.

The commission finds the Parties' stipulated Test Year revenue requirement of \$1,522,249 to be reasonable.

B.

Stipulated Operating Expenses

The Parties have agreed on an amount of \$938,196 for KRWC's Test Year total operating and maintenance expenses, at present and proposed rates, respectively. A breakdown of each item is as follows:

1. Electricity

KRWC proposed a Test Year expense amount for electricity charges of \$456,900.

The Consumer Advocate recommended a Test Year electricity expense amount of \$504,418, representing an increase of \$47,518 from KRWC's Test Year amount. In its Direct Testimony, the Consumer Advocate expressed concerns with KRWC's methodology for calculating its electricity expense because KRWC did not recognize the relationship of the kilowatt hours required to pump and deliver water from the wells to KRWC's customers to the volume of water pumped and delivered to KRWC's customers.

During settlement discussions, KRWC accepted the Consumer Advocate's methodology for the purposes of this

proceeding, however recommended an adjustment to reflect a credit it received from the Rider M "discounted" rates provided it by Hawaii Electric Light Company, Inc. which was not reflected in the power cost expense for Pump No. 1 utilized by the Consumer Advocate, resulting in a reduction of the Consumer Advocate's Test Year electricity expense by \$26,206, to \$478,212.

For the purposes of settlement, the Consumer Advocate accepted KRWC's proposed adjustment, for a Test Year expense amount for electricity expense of \$478,212.

The commission finds the Parties' methodology to be reasonable and also finds the Test Year expense amount for electricity charges to be appropriate.

## 2. Operations Contract

In its Application, KRWC proposed a Test Year expense amount for its operations contract with Dan's Field Services of \$258,408. The Consumer Advocate did not object to this amount, nor did it recommend any adjustments to the amount. In its Direct Testimony, the Consumer Advocate testified that KRWC's method of calculating the Test Year operations contract expense did not appear to be unreasonable. During settlement discussions, however, KRWC recommended an increase of \$6,336 in the operation contract amount to recognize the increase in expenses associated with the additional customers included by the Consumer Advocate in its Test Year revenue calculation. This increase was accepted by the Consumer Advocate and the

Parties have stipulated to a Test Year expense amount for the operations contract of \$264,744.

The commission finds the Parties' Test Year expense amount of \$264,744 for its operations contract with Dan's Field Service to be reasonable.

### 3. Repair and Maintenance

In its Application, KRWC proposed a Test Year expense amount of \$51,100 for repair and maintenance consisting of \$44,000 of amortized costs associated with a major maintenance program that was expected to begin in the Test Year and continue over the next five-year period, and \$7,100 in normal repair and maintenance activities.

The Consumer Advocate did not object to the proposed annual expense of \$7,100, however expressed concerns with including KRWC's amortized costs of \$44,000 for the five-year maintenance program because it believed that the work associated with this program would be completed outside of the Test Year. The Consumer Advocate recommended that the commission authorize KRWC to recover such costs in a future rate proceeding on an amortized basis, without any carrying charge. KRWC accepted this recommendation, resulting in a reduction of \$44,000 in the Test Year repair and maintenance expense amount. The Parties, have, thus, for purposes of the Stipulation, stipulated to a Test Year expense amount for repair and maintenance of \$7,100. In addition, consistent with the Consumer Advocate's recommendation, the Parties request that the commission authorize KRWC to record its costs associated with the major

maintenance program in Account 186 - Miscellaneous Deferred Debits for recovery in a future rate proceeding on an amortized basis, without any carrying charge.

The commission finds the Parties Test Year stipulated expense amount of \$7,100 for repair and maintenance and the recordation of costs associated with the major maintenance program in Account 186-Miscellaneous Deferred Debits for recovery in a future rate proceeding, on an amortized basis, without any carrying charge, to be reasonable.

#### 4. Meter Installation

In its Application, KRWC proposed a Test Year expense amount for meter installation of \$15,750. In its Direct Testimony, the Consumer Advocate did not object to, nor recommend any adjustments to, this amount. During settlement discussions, however, KRWC requested that this amount be increased by \$14,000 to reflect the additional customers added by the Consumer Advocate during the Test Year and to match the installation revenue included by the Consumer Advocate for the Test Year, which increase was agreed to by the Consumer Advocate. For purposes of this Stipulation, therefore, the Parties have stipulated to a Test Year expense amount for meter installation of \$29,750.

The commission finds the Parties' stipulated Test Year expense amount of \$29,750 for meter installation to be reasonable.



5. Testing, Fuels and Supplies

In its Application, KRWC proposed a Test Year expense of testing, fuels and supplies of \$4,300. In its Direct Testimony, the Consumer Advocate did not object to, nor did it recommend any adjustments to, this stipulated amount. As such, for purposes of the Stipulation, the Parties have agreed to a Test Year expense amount for testing, fuels and supplies of \$4,300.

The commission finds the Parties' stipulated Test Year expense amount of \$4,300 for testing, fuels and supplies to be reasonable.

6. Facilities Site Maintenance

In its Application, KRWC proposed a Test Year expense amount for facilities site maintenance of \$28,128. In its Direct Testimony, the Consumer Advocate did not object to, nor did it propose any adjustments to this amount. For purposes of this Stipulation, therefore, the Parties have stipulated to a Test Year expense amount for facilities site maintenance of \$28,128.

The commission finds the Parties' stipulated Test Year expense amount of \$28,128 for facilities site maintenance to be reasonable.

7. Insurance

In its Application, KRWC proposed a Test Year expense amount for insurance of \$28,108. In its Direct Testimony, the Consumer Advocate recommended this amount be reduced by \$2,016, based on actual 2006 insurance premiums. The Consumer Advocate

noted that in KRWC's response to Consumer Advocate-IR-8d, KRWC agreed to utilize the actual 2006 premium amounts, instead of amounts it had estimated at the time the Application was prepared. The Parties thus agreed to a stipulated Test Year amount for insurance of \$26,092.

The commission finds the Parties' stipulated Test Year expense amount of \$26,092 for insurance to be reasonable.

8. Accounting and Management Fees

In its Application, KRWC proposed a Test Year expense amount for accounting and management fees of \$39,200, which the Consumer Advocate did not object to, nor recommend any adjustments to this amount. For purposes of the Stipulation, the Parties, therefore, have agreed to a Test Year expense amount for accounting and management fees of \$39,200.

The commission finds the Parties' stipulated Test Year expense amount of \$39,200 for accounting and management fees to be reasonable.

9. Legal and Other Professional

In its Application, KRWC proposed a Test Year expense amount for legal and other professional services and fees of \$10,000. The Consumer Advocate did not object to, nor recommend any adjustments to this amount. As such, for purposes of the Stipulation, the Parties have stipulated to a Test Year expense amount for legal and other professional services and fees of \$10,000.

The commission finds the Parties' stipulated Test Year expense amount of \$10,000 for legal and other professional services and fees to be reasonable.

10. Office Supplies, Expenses and Postage

In its Application, KRWC proposed a Test Year expense amount of \$6,000 for office supplies, expenses and postage. In its Direct Testimony, the Consumer Advocate did not object to, nor did it recommend any adjustments to this amount. For purposes of this Stipulation, therefore, the Parties have agreed to a Test Year expense amount for office supplies, expenses and postage of \$6,000.

The commission finds the Parties' stipulated Test Year expense amount of \$6,000 for office supplies, expenses and postage to be reasonable.

11. Communications

In its Application, KRWC proposed a Test Year expense amount of \$8,500 for communications. The Consumer Advocate did not object to, nor did it recommend any adjustments to this amount. For purposes of this Stipulation, therefore, the Parties have agreed to a Test Year expense amount of \$8,500 for communications.

The commission finds the Parties' stipulated Test Year expense amount of \$8,500 for communications to be reasonable.

12. Rate Case Amortization

In its Application, KRWC proposed to recover the costs to process this rate case Application, expected to be \$220,000, by including one-fifth (1/5) of such costs, i.e., KRWC sought a

Test Year expense amount for rate case amortization of \$44,000. In its Direct Testimony, the Consumer Advocate stated its position that KRWC's projection of \$220,000 for each of the different phases of the instant rate case proceeding<sup>16</sup> was inflated. The Consumer Advocate thus recommended the following four (4) adjustments to KRWC's proposed amount: (1) reduce KRWC's estimate for the costs to prepare the Application by \$11,150 (i.e., from \$108,000 to \$96,850) to reflect the actual cost to prepare and file the Application; (2) reduce Applicant's estimate for the discovery and settlement phase to reflect the actual costs incurred in responding to discovery and to provide an allowance for settlement discussions, amounting to a total of \$54,000, which resulted in a reduction of \$6,500 from KRWC's estimate for this phase of the proceeding; (3) remove the estimated \$51,000 costs associated with the hearing and briefing phase of the proceeding as this phase will not be required due to the Parties' settlement as reflected by the Parties' Stipulation and agreement to waive their rights to an evidentiary hearing; and (4) reduce miscellaneous costs included in the discovery and settlement estimate contained in the Application to the extent those costs were not actually incurred by Applicant.

These four (4) adjustments by the Consumer Advocate resulted in a revised estimated cost for the rate case of \$151,350. Using the five (5)-year amortization period proposed in the Application, the Consumer Advocate recommended a Test Year

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<sup>16</sup>For example, KRWC cites preparation and filing of the Application, discovery and settlement, and hearings and briefing. Stipulation at 18.

rate case amortization expense of \$30,270, \$13,730 lower than KRWC's proposed Test Year estimate of \$44,000. During settlement discussions, the Consumer Advocate received updated information from KRWC of its actual additional costs incurred for legal and consulting services through June 2006 and an estimate for the additional costs to complete the remaining work for the discovery and settlement phase. The additional discovery and settlement costs incurred, or to be incurred, were mainly related to reviewing and reaching an agreement with the Consumer Advocate on the revisions to KRWC's Rules and Regulations, resulting in the elimination of the final rate design proposed by KRWC, and an agreement to continue the flat rate for customer usage and activities associated with the participation of KBTS. Based on this information, the Consumer Advocate agreed to increase its recommended rate case expense by \$29,500, and its resulting annual amortization amount by \$5,900 to reflect a Test Year amount of \$36,170. This amount was accepted by KRWC, and for the purposes of this Stipulation, that Parties have agreed to a Test Year expense amount for rate case amortization of \$36,170.

The commission finds the Parties' stipulated Test Year expense amount of \$36,170 for rate case amortization to be reasonable.

### 13. Depreciation

In its Application, KRWC proposed a Test Year expense amount for depreciation of \$175,638. In its Direct Testimony, the Consumer Advocate did not object to, nor recommend any adjustments to this amount. For purposes of the Stipulation,

therefore, the Parties have agreed as to the methodology to be used to calculate the Test Year expense amount for depreciation, and as a result, have stipulated to a Test Year expense amount for depreciation of \$175,638.

The commission finds the Parties' stipulated Test Year expense amount of \$175,638 for depreciation to be reasonable.

14. Amortization of Contribution in Aid of Construction ("CIAC")

In Exhibit KRWC 9-1 of the Application, KRWC proposed to include an amortization amount of (\$23,140) to reflect the amortization of CIAC. In its Direct Testimony, the Consumer Advocate did not object to, nor did it recommend an adjustment to this amount. As such, the Parties have stipulated to a Test Year Expense amount for amortization of CIAC of (\$23,140).

The commission finds the Parties' stipulated Test Year expense amount of (\$23,140) for amortization of CIAC to be reasonable.

C.

Rate Base

Pages 6 and 7 of Exhibit A of the Stipulation set forth the Parties average rate base calculations. The Parties have stipulated to a Test Year average rate base of \$2,342,923. In doing so, the Parties negotiated, and/or came to a stipulated agreement on each of the items discussed below:

1. Net Plant-in-Service

With regard to KRWC's net utility plant-in-service amounts resulting from the Stipulation, the Parties have agreed to an end-of-year 2005 net plant-in-service amount of \$3,922,654 and an end-of-year 2006 net plant-in-service amount of \$3,747,016, for an average 2006 Test Year net plant-in-service amount of \$3,834,835. A discussion of the various components of KRWC's net plant-in-service follows:

a. Plant-in-Service

KRWC's end-of-year 2005 and 2006 plant-in-service amount, and resulting average Test Year plant-in-service amount, as shown in Exhibit KRWC 8-1 of the Application, was \$7,639,845. In its Direct Testimony, the Consumer Advocate did not object to, nor did it recommend any adjustments to this amount. For purposes of this Stipulation, the Parties have stipulated to an average Test Year plant-in-service amount of \$7,639,845.

The commission finds this stipulated amount to be reasonable.

b. Accumulated Depreciation

As shown in Exhibit KRWC 8-1 of the Application, KRWC's end-of-year 2005 and 2006 accumulated depreciation amounts were \$3,717,191 and \$3,892,829 respectively, resulting in an average Test Year accumulated depreciation amount of \$3,805,010. The Consumer Advocate did not object to, nor recommend any adjustments to these accumulated depreciation amounts in its Direct Testimony. As such, the Parties have stipulated to an end-of-year 2005 accumulated depreciation amount of \$3,717,191,

and end-of-year 2006 accumulated depreciation amount of \$3,892,829, resulting in an average Test Year accumulated depreciation amount of \$3,805,010.

The commission finds these stipulated amounts, for accumulated depreciation, to be reasonable.

2. Customer Deposits

KRWC proposed an end-of-year 2005 and 2006 customer deposit amount, and resulting average Test Year customer deposit amount, of \$22,000. The Consumer Advocate did not object to, nor did it recommend an adjustment to this amount. The Parties, thus, stipulated to an average Test Year customer deposit amount of \$22,000 to be deducted from the Test Year average rate base.

The commission finds this stipulated amount for customer deposits of \$22,000, to be reasonable.

3. CIAC

In its Application, KRWC proposed an end-of-year 2005 and 2006 CIAC amount, and resulting average Test Year CIAC amount, of \$587,520. The Consumer Advocate did not object to, nor did it recommend any adjustments to these amounts in its Direct Testimony. As a result, the Parties have agreed to an average Test Year CIAC amount of \$578,520, to be deducted from the Test Year average rate base.

The commission finds this stipulated average Test Year CIAC amount to be reasonable.

4. Accumulated Deferred Income Taxes ("ADIT")

KRWC's end-of-year 2005 and 2006 ADIT amounts were \$1,368,405 and \$1,338,631, respectively, resulting in an average



Test Year ADIT amount of \$1,353,518. The Consumer Advocate did not object to, nor did it recommend any adjustments to these amounts in its Direct Testimony. Therefore, for purposes of the Stipulation, the Parties have agreed to an average Test Year ADIT amount of \$1,353,518 to be deducted from the Test Year average rate base.

The commission finds this stipulated average Test Year ADIT amount of \$1,353,518 to be reasonable.

5. Accumulated Amortization of CIAC

KRWC's end-of-year 2005 and 2006 accumulated amortization of CIAC amount was \$372,373 and \$395,513, respectively, resulting in an average Test Year accumulated amortization of CIAC amount of \$383,943. The Consumer Advocate did not object to, nor did it recommend any adjustments to these amounts. As such, for purposes of the Stipulation, the Parties have agreed to an average Test Year accumulated amortization of CIAC amount of \$383,943 to be added to the Test Year average rate base.

The commission finds this average Test Year accumulated amortization of CIAC amount to be reasonable.

6. Working Capital

The Parties were in agreement as to methodology used to calculate working capital. Thus, any differences between the Parties resulted from their differing operating expense estimates set forth in the Application and the Consumer Advocate's Direct Testimony. As a result of the Parties' settlement on the Test Year operating expense projections, the Parties have

stipulated to an average Test Year working capital amount of \$78,183 to be added to the Test Year average rate base.

The commission finds this average Test Year working capital amount to be reasonable.

D.

Taxes

1. Taxes-Other than Income Taxes ("TOTIT")

The Parties were in agreement as to methodology and tax rates to be used to calculate the Test Year TOTIT, also known as revenue taxes. Any differences between the Parties' TOTIT projections resulted from the differing revenue requirement recommendations. As a result of the stipulated resolution of all differences between the Parties, the TOTIT amounts are \$60,656 and \$97,196, at present and proposed rates, respectively, for the Test Year.

The commission finds these stipulated amounts for TOTIT to be reasonable.

2. Income Taxes

The Parties were in agreement as to methodology and tax rates to be used to calculate the Test Year expense amount for income taxes. Any differences between the Parties' income tax projections resulted from the differing revenue and expense projections and return on rate base recommendations. As a result of the Stipulation which resolved all differences between the Parties, the Parties agreed to an income tax amount of (\$76,495)

and \$127,014, at present and proposed rates, respectively, for the Test Year.

The commission finds these amounts to be reasonable.

E.

Rate of Return

KRWC originally sought a return on rate base of 10 percent. In its Direct Testimony, the Consumer Advocate recommended that KRWC's rate of return should be 8.85 percent based upon a determination in other water treatment utility proceedings utilizing an expert cost of capital witness that a rate of return of 8.85 percent was reasonable.<sup>17</sup> KRWC accepted the Consumer Advocate's recommended return on rate base of 8.85 percent for purposes of settlement. Thus, the Parties have agreed to a return on rate base of 8.85 percent. They have also agreed, however, that the stipulated 8.85 percent is for settlement purposes only, and shall not be deemed to set any precedent that may be applied against KRWC and/or the Consumer Advocate when seeking a different return on its rate base in any future regulatory proceedings.

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<sup>17</sup>The Consumer Advocate notes that it recently stipulated to using an 8.85 percent rate of return for other privately owned water treatment utilities, even though the original request was for a 10 percent rate of return. See, e.g., Decision and Order No. 21864, filed on June 14, 2002, in Docket No. 04-0298.

F.

Rate Design

Upon agreement by the Parties of the expense items and rate base, the Parties stipulated to the final rate increase of approximately 60.24 percent necessary to provide a reasonable opportunity for KRWC to earn the Test Year revenue requirement of \$1,522,249, representing a total revenue increase of \$572,267. During settlement discussions, the Parties acknowledged that the tiered rate structure based on usage and originally proposed in the Application was strongly opposed by many of KRWC's customers during and after the public hearing. In particular, KBTS expressed concerns with KRWC's proposed tiered rate structure, stating that all users should pay the same rate based on the same rate structure. In an attempt to address these concerns, the Parties agreed to a rate structure which results in a phasing in of rates through (1) interim rates (Phase I, approved in Interim Decision and Order No. 23013, filed on November 3, 2006), followed by (2) a final rate structure (Phase II) to become effective on or about May 1, 2007, to primarily serve the following objectives: (a) allow KRWC to recover the fixed expenses through a fixed charge and the variable expenses through a volumetric rate; and (b) prevent excessive "rate shock" to KRWC's customers. In doing so, the Parties agreed, consistent with their Stipulated Interim Relief Letter, to recover the agreed upon variable expenses through a flat rate structure in lieu of the tiered rate structure initially proposed by KRWC in

the Application.<sup>18</sup> Following is KRWC's rate design at present rates, i.e., prior to the interim rate increase approved by Interim Decision and Order No. 23013, as a result of the interim rate increase, and rates resulting from the Stipulation for final rates:

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<sup>18</sup>The Parties advise the commission that House Bill ("H.B.") No. 1121 Relating to Water Rates for Agricultural Uses was introduced on January 24, 2007, as part of the 2007 Hawaii legislative session. Initially, H.B. No. 1121 required, among other things, that the commission "require private entities that furnish water used for agricultural purpose [sic] in an area zoned for agricultural use to establish a water rate structure for agricultural use that is comparable to the water rate structure used by the local county board of water supply." Application at 26, n. 20.

The Parties' present understanding is that H.B. No. 1121 has been further amended by the House of Representatives and is being reviewed by the Senate in this draft amended form. The Parties recognize that this proposed measure, if adopted and signed into law, may impact the rate design component of the instant proceeding. The Parties, therefore, have agreed that the stipulated final rate structure, as described in the Stipulation, should be approved and made effective on or before May 1, 2007. In doing so, the Parties request that the commission give the Parties the right to modify such stipulated rate structure prospectively (subject to commission review and approval) as part of the subject docket in the event such law is promulgated in 2007 requiring KRWC to establish an agricultural rate for agricultural uses. If no such law is promulgated in 2007, the Parties have further agreed that the above-referenced condition shall be deemed moot, and that the docket should be closed.

H.B. 1121 was not passed into law during the 2007 legislative session. However, the legislature adopted Senate Concurrent Resolution No. 3, S.D.1, Requesting The Public Utilities Commission To Study The Rate Structures Of Private Entities That Furnish Water Used For Agricultural Purposes.

<u>Monthly Meter Charges</u>	<u>Previous Rates</u> (per meter/mo.)	<u>Interim Rates</u> (pursuant to Decision and Order No. 23013) (per meter/mo.)	<u>Final</u> (per meter/mo.)	<u>Percentage Change</u> (final vs. previous)
5/8 inch meter	\$ 4.00	\$16.00	\$16.00	300 %
1 inch meter	\$11.50	\$46.00	\$46.00	300 %
1-1/2 inch meter	\$22.00	\$88.00	\$88.00	300 %
2 inch meter	\$30.00	\$120.00	\$120.00	300 %
3 inch meter	\$60.00	\$240.00	\$240.00	300 %

<u>Monthly Consumption Charges</u>	<u>Previous Rates</u>	<u>Interim Rates</u> (pursuant to Decision and Order No. 23013)	<u>Final</u>	<u>Percentage Change</u> (final vs. previous)
Base Monthly Consumption Charge per 1,0000 Gallons Of Usage	\$2.71	\$4.70	\$5.6350	108%
Automatic Power Cost Adjustment Clause Per 1,000 Gallons of Usage	Diff- erence in Electri- city Cost per 1,000 gallons and \$1.06/tho usand gallons		Diff- erence in Electri- city Cost per 1,000 gallons and \$2.22/ thousand gallons	N/A
<b>Total Charge Per 1,000 gallons of usage</b>	\$3.77	\$4.70	\$5.6350	49%

<u>Other Charges</u>		
<u>Meter Installation Charges</u>	<u>Per Interim Decision and Order No. 23013</u>	<u>Final</u>
All Meters	\$2,000	\$2,000
<u>Hydrant Rental Charges*</u>		
Per Meter	\$10.85/day	\$10.85/day
*All water utilized from the temporary hydrants shall be calculated at the monthly consumption charges established by all customers.		

The commission finds the Parties' stipulated rate design in this proceeding, which provides KRWC a reasonable opportunity to earn a Test Year revenue requirement amount of \$1,522,223, to be reasonable.

G.

#### Rules and Regulations

KRWC proposed various rule changes to its existing Rules and Regulations. In general, KRWC sought certain amendments to: (1) re-format its Rules and Regulations to conform with current tariff formatting standards; (2) incorporate certain other non-substantive changes; (3) revise and add certain provisions to the Rules and Regulations to comply with the

Hoyt Mediation Agreement<sup>19</sup>; and (4) revise and/or add other provisions in the Rules and Regulations in connection with the instant proceeding. In its Direct Testimony, the Consumer Advocate suggested certain other revisions to the Rules and Regulations,<sup>20</sup> which KRWC had opportunity to review and which it found acceptable.

Upon review, the commission finds the revisions to KRWC's Rules and Regulations to be reasonable. A summary of the major provisions or amendments to KRWC's Rules and Regulations follows:

1. General Re-formatting and Other Non-Substantive Changes

KRWC proposed numerous minor formatting changes to conform to recently filed tariffs approved by the commission, e.g., the addition of a checklist sheet, adding KRWC's name and location on each page, and numbering each tariff sheet. In addition, certain other modifications were proposed to clarify certain definitions contained within Rule 1 of the Tariff. The Consumer Advocate accepted these changes.

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<sup>19</sup>See Order No. 21772, filed on April 22, 2005, in Docket No. 04-0296. The Hoyt Mediation Agreement arose out of a formal complaint, pursuant to HAR § 6-61-67, by John D. (Jack) Hoyt against KRWC. The commission ordered the parties to participate in nonbinding mediation. The settlement between Mr. Hoyt and KRWC, as mediated by the West Hawaii Mediation Center, was documented in Order No. 21772.

<sup>20</sup>See Exhibit CA-109 of the Consumer Advocate's Direct Testimony.



2. Rule X - Meter Tests and Adjustments of Bills for Meter Inaccuracy

KRWC proposed various changes to Rule X of its Rules and Regulations to comply with the Hoyt Mediation Agreement. In particular, KRWC proposed new language to Rule X.1 requiring that meters be tested within five (5) working days of the written request of a customer. KRWC also proposed adding a new subsection Rule X.3 by adopting the majority of the applicable language set forth in Section 3-10 of the County of Hawaii's Water Supply Rules regarding making adjustments to bills for leakages. During settlement discussions, the Consumer Advocate reviewed the proposed changes and determined that they were acceptable.

3. Rule XI - Discontinuation of Water Service

KRWC proposed changes to Rule XI of its Tariff as a result of the Hoyt Mediation Agreement. KRWC proposed to amend Rule XI by adding a new subsection, Rule XI.7, to establish a dispute resolution procedure in connection with shutoff notices to customers. Upon reviewing these proposed changes, the Consumer Advocate confirmed that these proposed changes were acceptable.

4. Rule XXVI - Requirements for Subdivision Water Systems

KRWC's proposed changes to Rule XXVI involved several substantive proposed amendments to Rule XXVI.2, including adding clarifying language that storage tanks with a capacity of 100,000 gallons and over shall be of concrete or steel construction as approved by KRWC. KRWC also proposed to amend

Rule XXVI.8 to include clarifying language that the preliminary maps and final maps of subdivisions to be reviewed by KRWC must be prepared by a surveyor licensed in the State of Hawaii and must fully conform to KRWC's Rules and Regulations and the County of Hawaii Subdivision Control Code. KRWC also proposed to modify Rule XXVI.8(c) to require final construction plans and specifications and a set of original drawings by the subdivider to be prepared on computer aided design, rather than ink on linen, due to technological advances and changes. In addition, to be consistent with the surety bond and other security requirements set forth under Rule XXVI.13 (Construction Agreement and Bond), KRWC proposed to modify Rule XXVI.14 (Repair and Replacement of Improvements) to include similar language. The Consumer Advocate accepted these proposed changes.

4. Rule XXIX (Condominium Property Regime Service Connections)

KRWC proposed a new rule XXIX to allow customers residing on property subject to a condominium property regime created prior to March 1, 2006, and which has two or more units connected to a single meter, to obtain separate meters, notwithstanding the service connection restrictions set forth in Rule VI of the Rules and Regulations. The Consumer Advocate agreed to the addition of this new rule. Due to other modifications to the Rules and Regulations, the Parties agreed that this rule should be relabeled as Rule XXVIII.

In light of the Parties' agreement to implement a phased-in rate increase in lieu of the tiered rate structure initially proposed in the Application, the Parties agreed to certain

additional amendments consistent with the agreement. Following is a summary of the major amendments agreed upon by the Parties with regard to the phased-in rate increase:

1. Rule XXVII (Automatic Power Cost Adjustment Clause ("APCAC"))

The Parties agreed that KRWC's existing APCAC, as established in Rule XXVII of the Rules and Regulations is intended to allow KRWC to increase or decrease the rates charged for water based upon any corresponding increase or decrease in the cost of electricity charged to KRWC in relation to the base cost of electricity established in this proceeding. In doing so, the Parties agreed to update the base cost of electricity from \$1.06 to \$2.22/1000 gallons.<sup>21</sup>

2. Rule XXVIII (Meter Restrictions and Qualifications)

KRWC initially proposed a new Rule XXVIII to provide for meter restrictions, qualifications, and other requirements in connection with KRWC's proposal to allow bona fide commercial agricultural activities and community associations to obtain a larger water meter and qualify for a different rate structure. However, as stated in the Stipulated Interim Relief Letter and the Stipulation, the Parties agreed during settlement discussions

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<sup>21</sup>The Parties have agreed that Act 162, 2006 Session Laws of Hawaii ("Act 162"), as it applies to the "automatic fuel rate adjustment clause" requirement (codified in HRS §269-16(g)) is inapplicable to KRWC's existing APCAC. HAR § 6-60-6(1) provides: " 'Fuel adjustment clause' means a provision of a rate schedule which provides for increases or decreases or both, without prior hearing, in rates reflecting increases or decreases or both in costs incurred by an **electric or gas utility** for fuel and purchased energy due to changes in the unit cost of fuel and purchased energy." (Emphasis added.)

that this rule is no longer applicable and should be deleted due to the different rate structure agreed to by the Parties in their Stipulation.

### 3. Service Territory Map

KRWC'S existing Rules and Regulations refer to a service territory map (Exhibit A) although no such map is currently attached to the Rules and Regulations. During settlement discussions, the Parties agreed to include a service territory map to KRWC's Rules and Regulations reflecting KRWC's service area as approved by the commission in Decision and Order No. 8816, filed on July 7, 1986, in Docket No. 5523. The Parties have agreed to relabel the service territory map as Exhibit E.

## III.

### Summary of Findings and Conclusions

Upon its review of the stipulated rate components discussed above, the commission finds and concludes that the Parties' Stipulation achieves a resolution of all outstanding issues in this proceeding. The Stipulation considers the different views of both KRWC and its customers, and achieves a balance between KRWC's need to operate its business successfully, and the interests and views of its consumers, who have an interest in obtaining potable water at reasonable prices. As such, the commission concludes that the Stipulation should be adopted in its entirety. Specifically, the commission finds and concludes the following:

1. The stipulated operating revenues and operating expenses for the Test Year, as set forth in Exhibit A, attached, are reasonable.

2. Based on the Parties' Stipulation, KRWC is entitled to a revenue increase of \$572,267, or approximately 60.24 percent, which is reasonable.

3. KRWC's Test Year stipulated rate base of \$2,342,923, based on a stipulated rate of return of 8.85 percent is reasonable.

4. The Parties' rate design is reasonable.

5. KRWC shall promptly file its revised tariff sheets and rate schedules for the commission's review and approval, which implement the increases in rates and charges authorized by this Decision and Order. KRWC's filing shall also include an updated service territory map.

6. KRWC is authorized to record its costs associated with the major maintenance program in Account 186 - Miscellaneous Deferred Debits for recovery in a future rate proceeding on an amortized basis, without any carrying charge.

#### IV.

#### ORDER

#### THE COMMISSION ORDERS:

1. The Parties' Stipulation, filed on March 23, 2007, is approved in its entirety and incorporated as part of this Decision and Order.

2. KRWC may increase its rates to produce a total annual revenue increase of \$572,267 or approximately 60.24 percent.


3. KRWC shall file with the commission revised tariff sheets and rate schedules with the applicable issued and effective dates, and reflecting the increases in rates and charges to its schedules and Rules and Regulations authorized by this Decision and Order. KRWC shall also file an updated service territory map. The revised tariff sheets, rate schedules and updated service territory map shall be served on the Consumer Advocate and filed with the commission within ten (10) days of the issuance of this Decision and Order. The rate increase shall take effect upon the commission's review and approval of this filing.

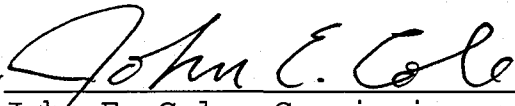
4. KRWC is authorized to record its costs associated with the major maintenance program in Account 186 - Miscellaneous Deferred Debits for recovery in a future rate proceeding on an amortized basis, without any carrying charge.

5. The failure to comply with any of the requirements noted in the above ordering paragraphs may constitute cause for the commission to void this Decision and Order, and may result in further regulatory action, as authorized by State law.

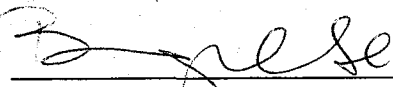
DONE at Honolulu, Hawaii MAY - 1 2007.

PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

By   
Carlito P. Caliboso, Chairman

By   
John E. Cole, Commissioner

APPROVED AS TO FORM:

  
Benedyne S. Stone  
Commission Counsel

05-0334.eh

**DOCKET NO. 05-0334**  
**KOHALA RANCH WATER COMPANY**  
**REVENUE REQUIREMENTS**  
**TEST YEAR ENDED DECEMBER 31, 2006**

	Present Rates	Additional Amount	Approved Rates
<b>REVENUES</b>			
Residential Usage	\$ 626,898	676,640	\$ 1,303,538
Residential Meter Charges	30,027	90,081	120,108
Installation	32,824	39,496	72,320
Hydrant	12,169	13,614	25,783
Power Cost Adjustment Rev.	247,564	(247,564)	\$ -
Finance Charge Income	500	-	\$ 500
Total Operating Revenues	<u>\$ 949,982</u>	<u>\$ 572,267</u>	<u>\$ 1,522,249</u>
<b>OPERATING &amp; MAINT. EXPENSES</b>			
Electricity	\$ 478,212		\$ 478,212
Operations Contract	264,744		264,744
Repairs and Maintenance	7,100		7,100
Meter Installation	29,750		29,750
Testing, Fuels & Supplies	4,300		4,300
Facilities Site Maintenance	28,128		28,128
Insurance	26,092		26,092
Accounting, Management Fees	39,200		39,200
Legal & Other Professional	10,000		10,000
Office Supplies, Exp. & Postage	6,000		6,000
Communications	8,500		8,500
Rate Case Amortization	36,170		36,170
Total O & M Expenses	<u>\$ 938,196</u>		<u>\$ 938,196</u>
Depreciation	\$ 175,638		\$ 175,638
Amortization of CIAC	(23,140)		(23,140)
TOTIT	60,656	36,539	97,196
Income Taxes	(76,495)	203,509	127,014
Total Operating Expenses incl. Taxes	<u>\$ 1,074,856</u>	<u>\$ 240,048</u>	<u>\$ 1,314,904</u>
Net Operating Income (Loss)	<u>\$ (124,874)</u>	<u>\$ 332,219</u>	<u>\$ 207,345</u>
Average Rate Base	<u>2,342,923</u>		<u>2,342,923</u>
Return on Rate Base	<u>-5.33%</u>		<u>8.85%</u>



**DOCKET NO. 05-0334  
KOHALA RANCH WATER COMPANY  
REVENUE TAXES  
TEST YEAR ENDED DECEMBER 31, 2006**

	<u><b>Tax Rates</b></u>	<u><b>Present Rates</b></u>	<u><b>Adjustments</b></u>	<u><b>Approved Rates</b></u>
Total Operating Revenues		<u>949,982</u>	<u>572,267</u>	<u>1,522,249</u>
Public Service Company Tax	5.885%	55,906	33,678	89,584
Public Utility Fee	0.500%	<u>4,750</u>	<u>2,861</u>	<u>7,611</u>
Total Revenue Taxes	6.385%	<u>60,656</u>	<u>36,539</u>	<u>97,196</u>

**DOCKET NO. 05-0334  
KOHALA RANCH WATER COMPANY  
AVERAGE RATE BASE  
TEST YEAR ENDED DECEMBER 31, 2006**

<b>Description</b>	<b>At 12/31/2005</b>	<b>At 12/31/2006</b>	<b>Average</b>
Plant in Service	7,639,845	7,639,845	
Accum. Depreciation	3,717,191	3,892,829	
Net-Plant-in-Service	<u>3,922,654</u>	<u>3,747,016</u>	3,834,835
Deduct:			
Customer Deposits	(22,000)	(22,000)	
CIAC	(578,520)	(578,520)	
Accumulated Deferred Income Tax	(1,368,405)	(1,338,631)	
Subtotal	<u>(1,968,925)</u>	<u>(1,939,151)</u>	(1,954,038)
Add:			
Accumulated Amortization of CIAC	372,373	395,513	
Subtotal	<u>372,373</u>	<u>395,513</u>	383,943
Average			2,264,740
Working Cash at Present Rates			<u>78,183</u>
Rate Base at Present and Proposed Rates			<u><u>2,342,923</u></u>

**DOCKET NO. 05-0334**  
**KOHALA RANCH WATER COMPANY**  
**INCOME TAX EXPENSE**  
**TEST YEAR ENDED DECEMBER 31, 2006**

	<u>Present Rates</u>	<u>Approved Rates</u>
<b>REVENUES</b>		
Residential Usage	\$ 626,898	\$ 1,303,538
Residential Meter Charges	30,027	120,108
Installation	32,824	72,320
Hydrant	12,169	25,783
Power Cost Adjustment Rev.	247,564	-
Finance Charge Income	500	500
Total Operating Revenues	<u>949,982</u>	<u>1,522,249</u>
<b>OPERATING &amp; MAINT. EXPENSES</b>		
Electricity	478,212	478,212
Operations Contract	264,744	264,744
Repairs and Maintenance	7,100	7,100
Meter Installation	29,750	29,750
Testing, Fuels & Supplies	4,300	4,300
Facilities Site Maintenance	28,128	28,128
Insurance	26,092	26,092
Accounting, Management Fees	39,200	39,200
Legal & Other Professional	10,000	10,000
Office Supplies, Exp. & Postage	6,000	6,000
Communications	8,500	8,500
Rate Case Amortization	36,170	36,170
Total O & M Expenses	<u>938,196</u>	<u>938,196</u>
Depreciation	175,638	175,638
Amortization of CIAC	(23,140)	(23,140)
TOTIT	60,656	97,196
Net Operating Expense	<u>213,154</u>	<u>249,694</u>
Taxable Income	(201,368)	334,359
Income Tax Expense		
Effective tax rate of	37.9874% (76,495)	127,014
Income Tax Expense	<u>\$ (76,495)</u>	<u>\$ 127,014</u>

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 23404 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

CATHERINE P. AWAKUNI  
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DIVISION OF CONSUMER ADVOCACY  
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\_\_\_\_\_  
for Karen Higashi

DATED: MAY - 1 2007