

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application of)

LAIE WATER COMPANY, INC. )

DOCKET NO. 2006-0502

For Approval of a Rate Increase )  
Pursuant to Hawaii Revised )  
Statutes § 269-16; and Revised )  
Rate Schedules. )

PROPOSED DECISION AND ORDER NO. 23522

Filed June 29, 2007

At 8 o'clock A.M.

Karen Higashi

Chief Clerk of the Commission

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Karen Higashi

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(Docket No. 2006-0502)

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PROPOSED DECISION AND ORDER

By this Proposed Decision and Order, the commission approves a general rate increase of \$1,015,443, or 132% over revenues at present rates for LAIE WATER COMPANY, INC. ("LWC") for the test year ending December 31, 2007 (the "Test Year"). In doing so, the commission approves the "Stipulation of Settlement Agreement in Lieu of Rebuttal Testimonies," jointly filed by LWC and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate")<sup>1</sup> on June 15, 2007.<sup>2</sup>

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<sup>1</sup>The Consumer Advocate is an ex officio party to this docket pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62. The Consumer Advocate and LWC are the only parties to this docket, and will hereinafter jointly be referred to as "the Parties." Dr. James M. Anthony and Dawn K. Wasson filed motions to intervene in this proceeding on March 16, 2007 and March 19, 2007, respectively, but the commission denied both motions in Order No. 23446, filed on May 18, 2007.

<sup>2</sup>Stipulation of Settlement Agreement in Lieu of Rebuttal Testimonies, Exhibits A to E, and Certificate of Service, filed on June 15, 2007 (the "Stipulation").

Specifically, the commission approves: (1) a revenue increase of \$1,015,443, or approximately 132%, over revenues at present rates, and a revenue requirement for LWC of \$1,784,377; (2) an amount of \$909,411 for LWC's Test Year total operating and maintenance ("O&M") expenses and depreciation expense at present and proposed rates; (3) a Test Year average rate base of \$5,334,125; (4) a return on rate base of 8.85%; (5) a three-step phase-in of the agreed-upon rates and charges set forth in the Stipulation; and (6) an Automatic Power Cost Adjustment Charge ("APCAC") that will allow LWC to increase or decrease its water service rates based on any corresponding increase or decrease in LWC's cost for electricity.

I.

Background

A.

LWC

LWC was incorporated under the laws of the State of Hawaii on May 18, 1992, and is a wholly owned subsidiary of Hawaii Reserves, Inc. ("HRI"), a Hawaii corporation. LWC is a public utility that provides potable water and water for fire protection purposes to businesses and residences in its authorized service area in Laie, on the island of Oahu, Hawaii.

LWC obtained its certificate of public convenience and necessity pursuant to Decision and Order No. 15642, filed on June 12, 1997, as amended by Order No. 15478, filed on August 11, 1997, in Docket No. 7830. The commission approved an increase in

LWC's initial rates in Decision and Order No. 18406, filed on March 6, 2001, in Docket No. 00-0017, as amended by Order No. 18479, filed on April 11, 2001.

LWC's water system is comprised of six artesian wells, serviced by four pumps, with a 2,000,000 gallon steel reservoir tank, a 200,000 gallon stainless steel tank, and approximately 67,000 linear feet of pipeline in service on its system varying from two to sixteen inches in size.<sup>3</sup> LWC states that since 2000, the end of the test year used in Docket No. 00-0017, it has made significant changes to its system generally to improve pipeline reliability, pressure, fire flows, backup capabilities, and system delivery capacity. LWC's replacements and modifications to its pipeline network, as well as its other system improvements, are detailed in LWC-T-200.<sup>4</sup>

LWC currently provides water service to approximately 650 residential and 40 non-residential customers in Laie. Most of the land in LWC's service territory is owned by The Church of Jesus Christ of Latter-Day Saints. Three affiliates -- Brigham Young University Hawaii ("BYUH"), the Polynesian Cultural Center ("PCC"), and The Church of Jesus Christ of Latter-Day Saints' Temple -- account for the majority of LWC's non-residential customers' water usage. A map of LWC's

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<sup>3</sup>See LWC's Application, Exhibits LWC 1 - LWC 10, LWC T-100 - LWC T-200, Verification, and Certificate of Service, filed on December 29, 2006 ("Application"), Exhibit LWC 1. The State of Hawaii Commission on Water Resource Management ("CWRM") has issued water use permits to LWC for each of its active source wells. Such permission was granted in CWRM Case No. CCH-OA96-2.

<sup>4</sup>See Exhibit LWC-T-200 (Direct Testimony of Jeffrey Tyau) at 3-7.

water system and service territory is provided in LWC's response to CA-IR-11.a.

B.

LWC's Application

On December 29, 2006, LWC filed its Application, requesting approval of a general rate increase of approximately \$1,522,089. This request amounted to an approximate 198.0% increase over pro forma revenues at present rates, and was based on an estimated total revenue requirement of \$2,290,723 for the Test Year. This proposed revenue increase would have provided LWC with a 9.5% rate of return on its rate base.

LWC proposed several new rate blocks and charges for its residential and commercial customers. As to LWC's residential customers, there are currently only two rate blocks for water usage within LWC's residential class of service: (1) 0 to 13,000 gallons per month; and (2) over 13,000 gallons per month. LWC proposed to add an intermediary rate block by creating a third rate block for water usage, similar to the Honolulu Board of Water Supply ("BWS") rate blocks for residential service.<sup>5</sup> LWC proposed the following residential rate

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<sup>5</sup>LWC believes that it is presently in its customers' interest to have water rates that are similar to those of BWS. See LWC-T-100 (Direct Testimony of Robert L. O'Brien) at 15. LWC therefore proposed to use BWS rates scheduled to be effective on July 1, 2010, as the final rates in this proceeding "so the rates it charges its residential customers will approximate the BWS rates for the time period rates from this proceeding will be in effect." Id.

blocks: (1) 0 to 13,000 gallons per month; (2) 13,001 to 30,000 gallons per month; and (3) over 30,000 gallons per month.

As for commercial customers, there are currently no rate blocks for water usage within LWC's commercial class of service. LWC proposed creating a rate structure with four rate blocks for water usage for commercial service: (1) 0 to 13,000 gallons per month; (2) 13,001 to 30,000 gallons per month; (3) 30,001 to 400,000 gallons per month; and (4) over 400,000 gallons per month.

In recognition that the proposed rate increases could result in "rate shock" to certain classes of customers, LWC proposed a three-step phase-in of the proposed rate increases. Phase 1 would become effective immediately upon approval by the commission; Phase 2 would take effect six months after the effective date of Phase 1; and Phase 3 would take effect six months after the effective date of Phase 2. Thus, the proposed phase-in would delay the start of a full revenue recovery by LWC for twelve months after the commission issues a decision in this proceeding.

LWC's present and initially proposed rates for its residential and commercial classes of service, in its proposed three-step phase-in, are shown below:



**Phase 1-Effective upon approval by the commission**

<b><u>Residential Service</u></b>	<b><u>Present Rate</u></b> Per month or per 1,000 gallons	<b><u>Proposed Rate</u></b> Per month or per 1,000 gallons
Monthly Charge Per Customer	\$2.50	\$4.00
Usage Charge - 0 to 13,000 gallons per month	\$1.67	\$2.00
Usage Charge - 13,001 to 30,000 gallons per month	\$2.00	\$2.50
Usage Charge - Over 30,000 gallons per month	\$2.00	\$3.00
<b><u>Commercial Service</u></b>		
Monthly Charge Per Customer	\$2.50	\$4.00
Usage Charge - 0 to 13,000 gallons per month	\$1.67	\$2.00
Usage Charge -13,001 to 30,000 gallons per month	\$2.00	\$2.50
Usage Charge - 30,001 to 400,000 gallons per month	\$2.00	\$3.00
Usage Charge - Over 400,000 gallons per month	\$2.00	\$8.28

**Phase 2-Effective six months after the effective date of Phase 1**

<b><u>Residential Service</u></b>	<b><u>Present Rate</u></b> Per month or per 1,000 gallons	<b><u>Proposed Rate</u></b> Per month or per 1,000 gallons
Monthly Charge Per Customer	\$2.50	\$5.00
Usage Charge - 0 to 13,000 gallons per month	\$1.67	\$2.34
Usage Charge - 13,001 to 30,000 gallons per month	\$2.00	\$3.00
Usage Charge - Over 30,000 gallons per month	\$2.00	\$4.00

<b><u>Commercial Service</u></b>		
Monthly Charge Per Customer	\$2.50	\$5.00
Usage Charge - 0 to 13,000 gallons per month	\$1.67	\$2.34
Usage Charge - 13,001 to 30,000 gallons per month	\$2.00	\$3.00
Usage Charge - 30,001 to 400,000 gallons per month	\$2.00	\$4.00
Usage Charge - Over 400,000 gallons per month	\$2.00	\$8.28

**Phase 3-Effective six months after the effective date of Phase 2**

<b><u>Residential Service</u></b>	<b><u>Present Rate</u></b> Per month or per 1,000 gallons	<b><u>Proposed Rate</u></b> Per month or per 1,000 gallons
Monthly Charge Per Customer	\$2.50	\$5.84
Usage Charge - 0 to 13,000 gallons per month	\$1.67	\$2.79
Usage Charge - 13,001 to 30,000 gallons per month	\$2.00	\$3.36
Usage Charge - Over 30,000 gallons per month	\$2.00	\$5.01
<b><u>Commercial Service</u></b>		
Monthly Charge Per Customer	\$2.50	\$5.84
Usage Charge - 0 to 13,000 gallons per month	\$1.67	\$2.79
Usage Charge - 13,001 to 30,000 gallons per month	\$2.00	\$3.36
Usage Charge - 30,001 to 400,000 gallons per month	\$2.00	\$5.01
Usage Charge - Over 400,000 gallons per month	\$2.00	\$8.28

In addition, LWC requested approval to implement an APCAC, which would allow LWC to increase or decrease its rates

for water service based on any corresponding increase or decrease in LWC's electricity costs in relation to the base cost of electricity established in this proceeding.

According to LWC, the main reason for its rate increase request is due to the major plant replacement program, described above, which resulted in an approximate \$4.0 million increase in rate base. Additionally, certain operating expenses have increased. Specifically, LWC represents that: (1) it has incurred cumulative losses between January 1, 2005 and September 30, 2006; (2) it will have spent approximately \$5.9 million on needed projects and improvements that are used and useful to its utility operations since December 31, 2000, the end of the last test year used in LWC's prior approved rate case, until December 31, 2007, the end of the Test Year in this docket; and (3) the instant rate case was designed to allow LWC the opportunity to recover costs and earn a fair and reasonable return on its utility assets.

LWC served copies of its Application on the Consumer Advocate. The Consumer Advocate did not object to the completeness of LWC's Application.<sup>6</sup> Hence, the filing date of LWC's complete Application is December 29, 2006, consistent with HRS §§ 269-16(d) and (f)(3).<sup>7</sup>

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<sup>6</sup>See Consumer Advocate's Statement of Position Regarding Completeness of Application, filed on January 19, 2007, in accordance with HRS § 269-16(d).

<sup>7</sup>See Order No. 23263, filed on February 15, 2007.

C.

Public Hearing

On February 15 and 22, and March 1 and 6, 2007, the commission published its Notice of Public Hearing statewide in various newspapers, in accordance with HRS §§ 1-28.5 and 269-16(c).<sup>8</sup> LWC notified its customers of the public hearing by means of a letter mailed to all customers on February 12, 2007, consistent with HRS § 269-12(c).<sup>9</sup>

On March 8, 2007, the commission held a public hearing on LWC's Application at Laie Elementary School, pursuant to HRS §§ 269-12(c) and 269-16(f)(2). At the public hearing, LWC's representatives and the Consumer Advocate orally testified and submitted written comments. Several other individuals also testified in person and submitted written comments. In general, the individuals who provided oral and written comments to the commission opposed or expressed concerns with LWC's proposed rates or the magnitude and impact of the increase. After all individuals were given an opportunity to present testimony, the commission closed the public hearing.

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<sup>8</sup>Specifically, the commission's Notice of Public Hearing was published in The Garden Island, Hawaii-Tribune Herald, Honolulu Star-Bulletin, The Maui News, and West Hawaii Today.

<sup>9</sup>See Letter dated and filed March 2, 2007 from LWC to the commission.

D.

Stipulated Issues

The Parties submitted a Stipulated Procedural Order, which was filed on April 19, 2007, as Stipulated Procedural Order No. 23375. As set forth in Order No. 23375, the underlying issue in this case is the reasonableness of LWC's proposed rate increase. This involves, in turn, a review of the following sub-issues:

1. Are the proposed tariffs, rates, and charges just and reasonable?
2. Are the revenue forecasts for the Test Year at present and proposed rates reasonable?
3. Are the projected operating expenses for the Test Year reasonable?
4. Is the projected rate base for the Test Year reasonable, and are the properties included in the rate base used or useful for public utility purposes?
5. Is the rate of return requested fair?

E.

Discovery

In Stipulated Procedural Order No. 23375, the Parties also agreed to a schedule for discovery. Pursuant to this schedule, on April 13, and May 2 and 9, 2007, the Consumer Advocate submitted Information Requests and Supplemental

Information Requests to LWC, to which LWC responded on April 23, 25, 27, and 30, and on May 8, 14, and 23, 2007.

On May 30, 2007, the Consumer Advocate submitted its Direct Testimonies and Exhibits.<sup>10</sup>

F.

Stipulation

On June 15, 2007, the Parties jointly filed their Stipulation, supported by the Parties' worksheets, data, and other information. The Stipulation reflects the Parties' global settlement of all the issues under HAR § 6-61-35. In reaching their global agreement, the Parties note:

1. The Stipulation, binding between them, "represent[s] 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."<sup>11</sup>
2. They reserve their respective rights to proffer, use, and defend different positions, arguments, methodologies, or claims regarding matters they stipulate to herein, in other dockets or proceedings.
3. They agree that nothing contained in the 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 the Stipulation.

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<sup>10</sup>Division of Consumer Advocacy's Direct Testimonies and Exhibits, filed on May 30, 2007 (collectively, "Consumer Advocate's Direct Testimonies"). The Consumer Advocate was granted a one-week extension of time, from May 25, 2007 to June 1, 2007, to file its Direct Testimonies.

<sup>11</sup>Stipulation at 8.

4. Each provision of the Stipulation is in consideration and support of all other provisions, and is expressly conditioned upon acceptance by the commission of the matters expressed in the Stipulation in their entirety. In the event the commission declines to adopt parts or all of the matters agreed to by the Parties and as set forth in the 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 commission.
5. "The Parties agree that all filed direct testimonies, exhibits, workpapers, information requests, responses, and this Stipulation are part of the record in the subject docket, and that the Commission may take such steps and actions it deems necessary and appropriate to facilitate its review of this Stipulation, and to determine whether this Stipulation should be approved."<sup>12</sup>

The Parties also acknowledge that the Stipulation is subject to the commission's review and approval, and the commission is not bound by the Stipulation.<sup>13</sup> In this regard, it is well-settled that an agreement between the parties in a rate case cannot bind the commission, as the commission has an independent obligation to set fair and just rates and arrive at its own conclusion. See In re Hawaiian Elec. Co., Inc., 5 Haw. App. 445, 698 P.2d 304 (1985). The commission will review the justness and reasonableness of the Parties' Stipulation, taken as a whole.

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<sup>12</sup>Id. at 40.

<sup>13</sup>See id. at 2.

## II.

### Discussion

LWC filed its Application in accordance with HRS § 269-16(f), which streamlines the rate review process for small public utilities with annual gross revenues of less than \$2 million. Pursuant to HRS § 269-16(f)(3), the commission must make every effort to issue its Proposed Decision and Order within six months from the filing date of LWC's complete Application, "provided that all parties to the proceeding strictly comply with the procedural schedule established by the commission and no person is permitted to intervene."

Because there were no intervenors in this proceeding, the commission timely issues this Proposed Decision and Order, in accordance with HRS § 269-16(f).<sup>14</sup>

### A.

#### Summary of the Parties' Stipulation

Exhibits A, B, and C, attached to the Stipulation show LWC's revenue requirement, expenses, customer usage information, rate base, and summary results of operations resulting from the Stipulation. In particular, the Parties agreed to: a \$1,015,443 increase in Test Year revenues from present rates and a revenue requirement for LWC of \$1,784,377; total O&M expenses of \$909,411; an average rate base of \$5,334,125; a return on rate

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<sup>14</sup>As noted above, the filing date of LWC's completed Application is December 29, 2006. Thus, the deadline for the commission to issue its Proposed Decision and Order is June 29, 2007.



base of 8.85%; a three-step phase-in of the stipulated rates and charges; an APCAC for LWC; and certain revisions to LWC's Rules and Regulations in its Tariff, as set forth in Exhibits D and E of the Stipulation. The Parties represent that the result of the Stipulation is to allow LWC to recover its expenses and net operating income, under the settlement terms.

B.

Operating Revenues

LWC originally sought a Test Year revenue requirement of \$2,290,723 in its Application. In its Direct Testimonies, the Consumer Advocate proposed a Test Year revenue requirement amount of \$1,511,984.<sup>15</sup> As set forth in Exhibit A, attached to the Stipulation,<sup>16</sup> the Parties have settled on a Test Year revenue requirement amount of \$1,784,377, consisting of \$1,312,307 in total operating expenses, depreciation and taxes, plus \$472,070 in operating income after income taxes, based on an 8.85% stipulated rate of return on LWC's stipulated rate base amount of \$5,334,125. This results in a revenue increase of \$1,015,443, or approximately 132%, over revenues at present rates.

The commission finds reasonable the Parties' stipulated amount for LWC's Test Year total operating revenues.

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<sup>15</sup>See Exhibit CA-101.

<sup>16</sup>The Parties' agreed-upon terms in Exhibit A of the Stipulation are also set forth in Exhibit 1, attached hereto, which the commission approves herein.

C.

Operating Expenses

As set forth in Exhibit A of the Stipulation, the Parties have agreed on an amount of \$909,411 for LWC's Test Year total O&M expenses and depreciation expense at present and proposed rates. In doing so, the Consumer Advocate made certain adjustments to LWC's O&M expense items, as discussed further below. The expense amounts to which the Consumer Advocate did not make adjustments appear reasonable to the commission and are therefore approved. Thus, the commission approves the following expenses, as set forth in the Stipulation: Electricity - \$108,600; Insurance - \$36,749; Vehicle and Heavy Equipment - \$700; Operating Supplies - \$5,600; Legal and Other Professional - \$15,000; Miscellaneous Employee Expense - \$1,000; Office Expense - \$1,600; Waste Removal - \$600; and Other Expenses - \$2,000.

The remaining expense items to which the Consumer Advocate made adjustments are detailed further below.

1.

Total Labor, Labor-Related, and  
Shared and Administrative Expenses

(i)

Salaries and Wages

In its Application, LWC proposed a Test Year expense amount for salaries and wages of \$254,775. The Consumer Advocate expressed concerns with LWC's proposed total salaries and wages or labor costs, noting that the 2007 Test Year projection for labor costs was noticeably higher than the historical average

expense for 2004 through 2006, whose recorded amounts appeared to exclude overtime costs. The Consumer Advocate also noted that the total labor costs charged to LWC for a number of the positions reflected the compensation for several highly paid individuals. Thus, the Consumer Advocate believed that the allocated labor costs reflected in LWC's Test Year revenue requirement far exceeded the compensation that is commonly recognized for rate setting purposes for small utilities. The Consumer Advocate stated, however, that "if the Commission adopts any recommendation to reduce the amount of salaries and wages to be recovered from ratepayers, it should be made clear that any such adjustment is not meant to affect the amount of pay that these individuals should receive, but the amount that is recoverable from ratepayers."<sup>17</sup>

In addition, the Consumer Advocate asserted that the commission has consistently disallowed the recognition of bonus plans and incentive compensation for rate setting purposes. The Consumer Advocate therefore recommended an adjustment to remove all bonus compensation from the Test Year labor costs.<sup>18</sup>

(ii)

Employee Taxes and Benefits

In its Application, LWC proposed a Test Year expense amount for employee taxes and benefits of \$127,700. In its Direct Testimonies, the Consumer Advocate was concerned with

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<sup>17</sup>CA-T-1 at 13.

<sup>18</sup>See id. at 13-14.

LWC's Test Year workers compensation expense projection of \$26,600, since the three-year average between 2004 and 2006 was \$2,295. LWC asserted that its proposed budgeted amount reflected the cost of the expected self-insured responsibility for the year, but the Consumer Advocate objected to the recognition of that amount for ratemaking purposes. Specifically, the Consumer Advocate argued: "If any company is allowed to rely on a budgeted amount without consideration of the recorded activity, the likelihood of rates being set inappropriately increases."<sup>19</sup> Thus, the Consumer Advocate recommended that the commission only recognize the three-year average workers compensation expense for Test Year purposes.

In addition, the Consumer Advocate argued that the commission has consistently disallowed the recovery of 401(k) expenses for rate setting purposes, and therefore, recommended that an estimated 401(k) matching expense of \$6,714 be excluded from LWC's employee benefits.<sup>20</sup>

(iii)

Shared and Administrative Services

LWC proposed a Test Year expense amount for shared and administrative services of \$200,000. In its Direct Testimonies, the Consumer Advocate objected to LWC's described methodology, as well as its calculations supporting its estimate. Citing Exhibit LWC-T-100 (Testimony of Robert L. O'Brien), the

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<sup>19</sup>Id. at 16.

<sup>20</sup>See id. at 16-17.

Consumer Advocate noted that HRI's current methodology for calculating shared and administrative expense involves calculating what a stand-alone water company would have to pay for specific services that are currently shared with other core business activities. In response, the Consumer Advocate contended that if a utility's operating and maintenance needs are met at a lower cost, it is not necessarily entitled to include the additional amounts that would have been incurred on a stand-alone basis in the determination of the test year revenue requirements.<sup>21</sup> The Consumer Advocate opined that LWC's estimate for these costs was too high, but LWC's methodology apparently suggests that it is not recovering enough for shared and administrative services.

The Consumer Advocate was also concerned with LWC charging indirect costs to operating and capital activities based on the hours worked by all personnel, and how this methodology appears to result in the possibility of certain companies being loaded with these indirect costs more than others, especially in heavy construction years. According to the Consumer Advocate, given that LWC is going through an intense construction activity phase, LWC may be receiving a significant allocation that will not necessarily continue for much longer beyond the Test Year.

Additionally, the Consumer Advocate expressed concerns that the nature and description of the estimates call into question what is being provided by the employees whose time is reflected in salaries and wages, as well as the amounts already

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<sup>21</sup>See id. at 18.

specifically budgeted for in expenses such as maintenance and repairs, operating supplies, and office expense.

(iv)

Parties' Settlement of Labor, Labor-Related Expenses,  
and Shared and Administrative Expenses

The Consumer Advocate asserted that the labor and labor-related expenses, as listed above, need to be examined in conjunction with each other. Through its various analyses of operating expenses for other water utilities subject to the commission's jurisdiction, the Consumer Advocate maintained that LWC's operating model and expenses differed significantly from operating costs for other companies. Here, the Consumer Advocate noted that LWC's combined labor and labor-related expenses to obtain support services represent LWC's largest operating cost; whereas electricity represents the largest operating cost of other water companies.<sup>22</sup>

The Consumer Advocate therefore recommended that the commission disallow a portion of LWC's projected Test Year labor and labor-related expenses in order to bring the relative ratio of the expenses more in line with other regulated entities. In particular, based on a calculated average of 36% for the four utility companies analyzed, the Consumer Advocate recommended that LWC's labor and labor-related expenses be reduced to a

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<sup>22</sup>In its Direct Testimonies, the Consumer Advocate included a chart demonstrating that the supporting labor costs for other water companies generally does not represent more than 40% of total O&M costs. In comparison, LWC's forecasted levels of supporting labor costs approach 70% of its O&M costs. See *id.* at 23.

similar percentage for revenue requirement purposes, and accordingly, proposed an overall downward adjustment of \$272,323. Based on the downward adjustment, the Consumer Advocate recommended a Test Year salaries and wages amount of \$135,875, a Test Year employee taxes and benefits amount of \$62,795, and a Test Year shared and administrative services amount of \$111,357.<sup>23</sup>

During settlement discussions, the Parties claim that LWC did not accept the Consumer Advocate's recommended downward adjustment because LWC believed that it had fully supported the necessity and the level of each of its expenses; moreover, LWC contended that it did not believe the Consumer Advocate provided any support for the methodologies or calculations supporting its downward adjustment. For purposes of settlement, however, the Parties agreed to resolve their differences by agreeing on a reduction of 75% of the Consumer Advocate's total recommended deduction. The Parties specify that: "The agreement is only in the interest of reaching a compromise and in consideration of the resolution reached on other revenue requirement differences to avoid having to spend unnecessary time and money to further litigate the disputed issues noted above."<sup>24</sup>

The Parties' settlement results in a reduction of LWC's total projected expenses for these accounts that is 75% of the Consumer Advocate's proposed reduction; and the Consumer Advocate increasing its recommended expenses by 25% of the adjustment reflected in the Consumer Advocate's Direct Testimonies.

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<sup>23</sup>See Exhibit CA-101.

<sup>24</sup>Stipulation at 16.

As such, the Parties have stipulated to a Test Year expense amount for salaries and wages, employee taxes and benefits, and shared and administrative services of \$165,600, \$79,021, and \$133,518, respectively.<sup>25</sup>

Based on the analyses performed by the Consumer Advocate, discussed above, and for purposes of the Parties' settlement herein, the commission determines these amounts to be fair and reasonable.

2.

Maintenance and Repairs

LWC proposed a Test Year expense amount for maintenance and repairs of \$60,000. The Consumer Advocate disagreed with LWC's five-year methodology in calculating this expense. In particular, the Consumer Advocate contended that the five-year average of the 2002 through 2006 expense is inflated because the 2003 actual expense, as shown on Exhibit LWC 9-7, is significantly higher than the expense for other years. As such, the Consumer Advocate recommended averaging the actual expenses for the years 2002 through 2006, and excluding the 2003 actual expense. Using this methodology, the Consumer Advocate's recommended Test Year expense for maintenance and repairs is \$36,116.

Although LWC disagreed with the Consumer Advocate's proposed methodology during settlement discussions, it accepted the Consumer Advocate's recommendation for purposes of

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<sup>25</sup>See Exhibit A, attached to Stipulation, and Exhibit 1, attached hereto.



settlement. Thus, the Parties have stipulated to a Test Year expense amount for maintenance and repairs of \$36,116, which the commission finds to be reasonable.

3.

Rate Case Amortization

LWC proposed to recover the costs to process this rate case, expected to be \$235,000, by including one-fifth of such costs (i.e., \$47,000) in the Test Year revenue requirement. The Consumer Advocate proposed adjustments to this expense by removing the costs associated with the following: (1) HRI charges, based on the Consumer Advocate's contention that internal labor should not be included in rate case expenses as these expenses may have been reflected in LWC's expenses for salaries and wages, and shared and administrative services; and (2) costs for hearing and briefing, because the Consumer Advocate maintained that rate case applications for utilities with less than \$2 million in operating revenues are not anticipated to require an evidentiary hearing, and therefore, these costs are not expected to be incurred.<sup>26</sup> The Consumer Advocate also proposed an adjustment to reflect the actual costs incurred by LWC for the preparation and filing phase, plus additional costs associated with responding to the intervention process following the filing.

Based on the foregoing, the Consumer Advocate recommended a total rate case amortization expense of \$179,470.

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<sup>26</sup>See CA-T-1 at 29-30.

Using the five-year amortization period proposed in the Application, the Consumer Advocate recommended a Test Year rate case amortization expense of \$35,894, which was \$11,106 lower than LWC's Test Year estimate of \$47,000.

During settlement discussions, LWC accepted the Consumer Advocate's proposal to update costs associated with the preparation and filing phase to reflect the actual costs incurred by LWC. However, LWC disagreed with the Consumer Advocate's proposed exclusion of HRI's costs, asserting that it had removed these costs from the total HRI support charges, and included them in a separate account for budget purposes. Accordingly, LWC contended that HRI's costs are not duplicative, and should be included in rate case expenses.

For purposes of settlement, though, LWC agreed to the removal of the HRI costs. The Consumer Advocate also accepted LWC's settlement proposal to reduce the amortization period from five years to three years, recognizing that LWC may need to file a general rate case application sooner than the five-year period anticipated by LWC in the Application. Based on the foregoing, the Parties agreed to a stipulated rate case expense of \$179,470, resulting in an annual amortization Test Year amount of \$59,823 for three years. The commission finds these agreed-upon terms to be just and reasonable.

4.

Depreciation

LWC proposed a Test Year expense amount for depreciation of \$303,100. The Consumer Advocate proposed an amount equal to \$223,272, which reflected certain adjustments to LWC's proposed depreciation expenses to be consistent with the recommended adjustments to LWC's Test Year plant-in-service items. As further discussed below, the Parties resolved their differences with regard to the Consumer Advocate's position that LWC had excess system capacity, and in connection therewith, have stipulated to a Test Year expense amount for depreciation of \$263,484, which the commission finds to be reasonable.

D.

Rate Base

As set forth on pages 7 and 8 of Exhibit A to the Stipulation, the Parties have stipulated to an average rate base of \$5,344,125.<sup>27</sup> In doing so, the Parties came to an agreement on each of the items discussed below.

1.

Net Plant-in-Service

As shown on page 7 of Exhibit A to the Stipulation, the Parties have stipulated to an end-of-year 2006 net plant-in-service amount of \$5,394,465, and an end-of-year 2007 net

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<sup>27</sup>The Parties' stipulated terms as to LWC's Test Year rate base are set forth in Exhibit 2, attached hereto, and approved herein.

plant-in-service amount of \$5,895,328, for an average 2007 Test Year net plant-in-service amount of \$5,644,896. Two components comprise the net plant-in-service amount -- plant-in-service and accumulated depreciation.

As to the plant-in-service component of the net plant-in-service amount, LWC proposed end-of-year 2006 and 2007 plant-in-service amounts of \$8,440,032 and \$9,371,032, respectively, and an average Test Year plant-in-service amount of \$8,905,532. In its Direct Testimonies, the Consumer Advocate proposed downward adjustments to result in end-of-year 2006 and 2007 plant-in-service amounts of \$6,204,965 and \$6,852,661, respectively, and a proposed average Test Year plant-in-service amount of \$6,528,813. These proposed adjustments were due to the exclusion of LWC's \$50,000 inadvertent plant addition for 2007 associated with a PCC/BYUH Storm Drain Discharge project, and the Consumer Advocate's suggested removal of costs associated with excess capacity in LWC's plant. In this regard, the Consumer Advocate asserted that LWC currently has an approximate 26.5% remaining capacity in its water system. According to the Parties, when the Consumer Advocate developed its position, it used estimated Test Year average daily water demand figures, and not the more accepted maximum or peak day demand figures.

Although LWC agreed with the Consumer Advocate's proposed downward adjustment related to costs associated with the PCC/BYUH Storm Drain Discharge project, it disagreed with the Consumer Advocate's position that there is excess capacity in its

water system.<sup>28</sup> Nevertheless, for purposes of settlement, the Parties agreed to split the amount of the Consumer Advocate's excess capacity adjustment by 50%. The Parties note: "The agreement was reached only in the interest of reaching a compromise and in resolving the other rate case differences rather than expend unnecessary time and money to further litigate the excess capacity disputed issue noted above."<sup>29</sup> The Parties' agreement results in an excess capacity adjustment to the average Test Year plant of 13.24%, and a stipulated average Test Year plant-in-service amount of \$7,704,673.

As to the accumulated depreciation component of the net plant-in-service amount, LWC's end-of-year 2006 accumulated depreciation amount was \$2,164,111, and end-of-year 2007 accumulated depreciation amount was \$2,467,212, resulting in an average Test Year accumulated depreciation amount of \$2,315,661. To be consistent with its recommended downward adjustments to LWC's end-of-year 2006 and 2007 plant-in-service amounts, the Consumer Advocate recommended corresponding adjustments to its accumulated depreciation balances, plus an adjustment to correct

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<sup>28</sup>In settlement discussions, LWC asserted that, to maintain sufficient capacity to provide safe, reliable water service with adequate fire protection capability, a number of factors and design criteria must be considered, including: (a) the maximum or peak day demand for water (and not average daily demand); (b) the amount of the pumping capacity; (c) the amount of water storage capacity; (d) the equipment and system reliability (LWC noted that, unlike BWS' system that has built-in redundancies, LWC has an isolated water system with limited backup facilities); and (e) unplanned fluctuations for higher water usage. See Stipulation at 24.

<sup>29</sup>Id.

an error in LWC's filing, resulting in an average Test Year accumulated depreciation amount of \$1,851,982.

As discussed above, because the Parties have resolved their differences with regard to the excess system capacity issue, the Parties have stipulated to a Test Year end-of-year 2006 accumulated depreciation amount of \$1,928,034, an end-of-year 2007 accumulated depreciation amount of \$2,191,518, resulting in an average Test Year accumulated depreciation amount of \$2,059,776.

The commission finds the figures for both plant-in-service and accumulated depreciation, to be reasonable. Likewise, the commission determines that the Parties' stipulated net plant-in-service amount is reasonable.

2.

Contributions in Aid of Construction ("CIAC")

LWC proposed an end-of-year 2006 and 2007 CIAC amount, and resulting average Test Year CIAC amount of \$277,832. In its Direct Testimonies, the Consumer Advocate proposed an end-of-year 2006 CIAC amount of \$213,815, and 2007 CIAC amount of \$239,325, resulting in an average Test Year CIAC amount of \$226,570. The Consumer Advocate's Test Year CIAC amount included adjustments for new customers reflected in the Consumer Advocate's Test Year revenues, and an adjustment for excess capacity based on the calculations reflected in the plant accounts. LWC has accepted the Consumer Advocate's adjustment related to the additional Test Year customers. Further, because

the Parties have resolved their differences with regard to the excess system capacity issue, they have stipulated to an average Test Year CIAC amount of \$267,376 to be deducted from the Test Year average rate base. Under the circumstances, the commission determines that this agreed-upon CIAC amount is fair.

3.

Accumulated Amortization of CIAC

LWC initially proposed an end-of-year 2006 accumulated amortization of CIAC amount of \$68,551, an end-of-year 2007 accumulated amortization of CIAC amount of \$85,551, resulting in an average Test Year accumulated amortization of CIAC amount of \$77,051. The Consumer Advocate proposed an end-of-year 2006 CIAC accumulated amortization of \$53,878, and end-of-year 2007 accumulated amortization of CIAC amount of \$67,889, resulting in an average Test Year accumulated amortization of CIAC amount of \$60,884.<sup>30</sup> As noted above, LWC has accepted the Consumer Advocate's adjustment related to the additional Test Year customers, and because the Parties have reached an agreement on the excess capacity issue, they have stipulated to an average Test Year accumulated amortization of CIAC amount of \$71,849, which the commission determines to be a just amount.

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<sup>30</sup>The Parties' figure of \$60,084 in the Stipulation for the Consumer Advocate's proposed average Test Year accumulated amortization of CIAC amount appears to be incorrect. Instead, this figure should be \$60,884.  $(53,878 + 67,889) \div 2 = 60,883.5$ .

4.

Water Rights

LWC sought an end-of-year 2006 and 2007 deferred water rights expense amount, and resulting average Test Year amount of \$235,800. The Consumer Advocate countered with a proposed end-of-year 2006 and 2007, and resulting average Test Year deferred water rights expense amount of \$173,356. Based on the Parties' settlement on the excess capacity issue, they have stipulated to an average Test Year deferred water rights expense amount of \$204,578, which the commission finds to be reasonable.

5.

Amortization of Water Rights

In its Application, LWC's end-of-year 2006 and 2007 amortization of deferred water rights expense amounts were \$41,266 and \$47,161, respectively, resulting in an average Test Year amount of \$44,214. In its Direct Testimonies, the Consumer Advocate proposed end-of-year 2006 and 2007 amortization of deferred water rights expense amounts of \$30,338 and \$34,672, respectively, resulting in an average Test Year amount of \$32,505. Based on the Parties' resolution of the excess capacity dispute, they have stipulated to an average Test Year amortization of deferred water rights expense amount of \$38,359, which the commission also finds to be reasonable.



6.

Accumulated Deferred Income Taxes ("ADIT")

LWC's end-of-year 2006 ADIT amount was \$247,228, and end-of-year 2007 ADIT amount was \$260,891, resulting in an average Test Year ADIT amount of \$254,060. The Consumer Advocate proposed ADIT amounts for end-of-year 2006 of \$270,682, and \$280,747 for end-of-year 2007, with an average Test Year ADIT amount of \$275,714. As a result of settlement discussions, the Consumer Advocate made an adjustment to eliminate the ADIT applicable to years prior to 1994, before LWC's acquisition of the company. Further, LWC adopted several miscellaneous adjustments, leaving the ADIT associated with the Consumer Advocate's proposed excess capacity adjustment as the only difference between the Parties. Because the Parties have resolved their differences on this issue, they have stipulated to a Test Year end-of-year 2006 ADIT amount of \$213,806, and an end-of-year 2007 ADIT amount of \$225,683, for an average Test Year ADIT amount of \$219,745, which the commission determines is fair.

7.

Working Capital

The Parties represent that they were in agreement as to the methodology that should be used to calculate working capital. Thus, any differences between the Parties resulted from their differing operating expense estimates. 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 \$53,827. The commission accepts as reasonable the sum of \$53,827 for working capital in this case.

E.

Taxes

According to the Parties, they were in agreement as to the methodology and tax rates to be used to calculate the Test Year amount for taxes other than income taxes ("TOTIT"). Any differences between the Parties' TOTIT projections resulted from their differing revenue requirement recommendations. Due to the Stipulation, which resolved all of the Parties' differences, the Parties' stipulated TOTIT amounts are \$49,096 and \$113,932 at present and proposed rates, respectively, for the Test Year.<sup>31</sup>

Likewise, the Parties state that they were in agreement as to the methodology and tax rates to be used to calculate the Test Year expense amount for income taxes. Any differences between them resulted from their differing revenue and expense projections, and return on rate base recommendations. As a result of the Stipulation, the Parties agreed to an income tax amount of \$(71,981) and \$288,964 at present and proposed rates, respectively, for the Test Year.<sup>32</sup>

The commission finds both of the stipulated amounts for TOTIT and income taxes to be fair and reasonable.

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<sup>31</sup>See Exhibit A, attached to the Stipulation, and Exhibit 1, attached hereto.

<sup>32</sup>See id.

F.

Rate of Return

In its Application, LWC sought a return on rate base of 9.50%. In its Direct Testimonies, the Consumer Advocate contended that, based on a cost of capital analysis performed by a cost of capital witness in Docket No. 03-0025, LWC's return on rate base should be 8.85%.<sup>33</sup> During settlement negotiations, LWC accepted the Consumer Advocate's recommended return on rate base of 8.85% for purposes of settlement. "The Parties have also agreed, however, that the stipulated 8.85% return on rate base was for settlement purposes only, and shall not be deemed to set any precedent that may be applied against [LWC] and/or the Consumer Advocate when seeking a different return on its rate base in any future regulatory proceedings."<sup>34</sup> For purposes of this rate case, the commission accepts as reasonable the Parties' stipulated 8.85% rate of return.

G.

Rate Design

As set forth above, LWC sought in its Application to implement: (1) an additional intermediary rate block for residential customers; (2) a new rate structure with four rate blocks for commercial customers; (3) an increase in fixed monthly and usage charges for both residential and commercial customers;

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<sup>33</sup>See CA-T-1 at 38-40. The Consumer Advocate argued that the factors supporting an 8.85% return for LWC are comparable to the factors supporting an 8.85% rate of return for the water utility in Docket No. 03-0025.

<sup>34</sup>Stipulation at 30.

and (4) an APCAC. To prevent "rate shock," LWC proposed to phase-in its approved rates in three phases, beginning with the approval of rates by the commission. Pursuant to this plan, although fully phased-in rates would not become effective until sometime in 2008 (based on a final commission order being issued in mid-2007), LWC also proposed that its final rates be based upon BWS' effective rates as of July 1, 2010.

The Consumer Advocate did not object to LWC's proposed rate structure and phase-in described in LWC's Application. However, as indicated in Exhibit CA-110, the Consumer Advocate proposed certain downward adjustments to the proposed rates for the various rate blocks. In particular, the Consumer Advocate proposed that the majority of the revenue contribution be assigned to customers using in excess of 400,000 gallons per month to be consistent with efforts to encourage water conservation and water management.<sup>35</sup>

The Parties represent that LWC raised various concerns with the Consumer Advocate's proposed adjustments during settlement discussions. They further explained that, in lieu of the Consumer Advocate's proposed rates, and in the interest of compromise to address each Party's issues relating to rate design, they agreed to: (1) the proposed phase-in of the approved rates in three phases for all customers (including commercial customers utilizing over 400,000 gallons per month), with each phase effective six months after the previous phase, beginning with the first phase becoming effective upon approval by the

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<sup>35</sup>See CA-T-1 at 40-47.

commission; (2) the proposed charges for restoration of water service (for each such reconnection and payable in advance) during regular business hours (\$150.00) and non-regular business hours (additional charge of \$75.00);<sup>36</sup> and (3) the proposed fixed monthly and volumetric usage charges for each of the applicable phases as follows:

**Phase 1-Effective upon approval by the commission**

<b><u>Residential Service</u></b>	<b><u>Present Rate</u></b> Per month or per 1,000 gallons	<b><u>Proposed Rate</u></b> Per month or per 1,000 gallons
Monthly Charge Per Customer	\$2.50	\$4.00
Usage Charge - 0 to 13,000 gallons per month	\$1.67	\$2.00
Usage Charge - 13,001 to 30,000 gallons per month	\$2.00	\$2.50
Usage Charge - Over 30,000 gallons per month	\$2.00	\$3.00
<b><u>Commercial Service</u></b>		
Monthly Charge Per Customer	\$2.50	\$4.00
Usage Charge - 0 to 13,000 gallons per month	\$1.67	\$2.00
Usage Charge - 13,001 to 30,000 gallons per month	\$2.00	\$2.50
Usage Charge - 30,001 to 400,000 gallons per month	\$2.00	\$3.00
Usage Charge - Over 400,000 gallons per month	\$2.00	\$5.25

<sup>36</sup>See rate schedule included in Exhibit D to the Stipulation.

**Phase 2-Effective six months after the effective date of Phase 1**

<b><u>Residential Service</u></b>	<b><u>Present Rate</u></b> Per month or per 1,000 gallons	<b><u>Proposed Rate</u></b> Per month or per 1,000 gallons
Monthly Charge Per Customer	\$2.50	\$5.00
Usage Charge - 0 to 13,000 gallons per month	\$1.67	\$2.34
Usage Charge - 13,001 to 30,000 gallons per month	\$2.00	\$3.00
Usage Charge - Over 30,000 gallons per month	\$2.00	\$4.00
<b><u>Commercial Service</u></b>		
Monthly Charge Per Customer	\$2.50	\$5.00
Usage Charge - 0 to 13,000 gallons per month	\$1.67	\$2.34
Usage Charge - 13,001 to 30,000 gallons per month	\$2.00	\$3.00
Usage Charge - 30,001 to 400,000 gallons per month	\$2.00	\$4.00
Usage Charge - Over 400,000 gallons per month	\$2.00	\$5.45

**Phase 3-Effective six months after the effective date of Phase 2**

<b><u>Residential Service</u></b>	<b><u>Present Rate</u></b> Per month or per 1,000 gallons	<b><u>Proposed Rate</u></b> Per month or per 1,000 gallons
Monthly Charge Per Customer	\$2.50	\$5.00
Usage Charge - 0 to 13,000 gallons per month	\$1.67	\$2.66
Usage Charge - 13,001 to 30,000 gallons per month	\$2.00	\$3.20
Usage Charge - Over 30,000 gallons per month	\$2.00	\$4.77

<u>Commercial Service</u>		
Monthly Charge Per Customer	\$2.50	\$5.00
Usage Charge - 0 to 13,000 gallons per month	\$1.67	\$2.66
Usage Charge - 13,001 to 30,000 gallons per month	\$2.00	\$3.20
Usage Charge - 30,001 to 400,000 gallons per month	\$2.00	\$4.77
Usage Charge - Over 400,000 gallons per month	\$2.00	\$5.65

The foregoing rates and rate design appear to represent a fair and reasonable compromise in this case. The commission accordingly finds that the Parties' stipulated rates and rate design should be approved.

H.

Rules and Regulations

1.

APCAC

In response to LWC's request for an APCAC, the Consumer Advocate did not object, nor recommend, any changes to the methodology proposed by LWC. As such, the Parties request that the commission approve the establishment of the APCAC, as set forth in LWC's revised Rules and Regulations, attached to the Stipulation as Exhibits D and E.<sup>37</sup>

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<sup>37</sup>The Parties further noted their position that Act 162, 2006 Session Laws of Hawaii ("Act 162") (codified in HRS § 269-16(g)), relating to automatic fuel rate adjustment clauses, is not applicable to water facilities and operations such as LWC's, nor to LWC's proposed APCAC in this docket. See Stipulation at 35. The commission has found as such in In re Puhi Sewer & Water Co.,

Upon review, the commission finds reasonable LWC's proposal to establish an APCAC, including the proposed methodology. In this regard, the commission notes that it has previously approved the establishment of power cost adjustment clauses by small wastewater utilities.<sup>38</sup>

2.

Stipulated Rule Changes

During discovery, the Consumer Advocate proposed various rule changes to LWC's existing Rules and Regulations. In response, LWC provided its initial position, not objecting to the majority of the Consumer Advocate's proposed rule changes, and recommending minor revisions to the remaining proposed rule changes. In its Direct Testimonies, the Consumer Advocate agreed with LWC's suggested minor revisions, which are described in Exhibit CA-211. During settlement discussions, the Parties further discussed, and confirmed their agreement, on the proposed revisions. As such, the Parties attach, as Exhibits D and E to

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Inc., Docket No. 2006-0423, Decision and Order No. 23412, filed on May 3, 2007 (adopting Proposed Decision and Order No. 23376, filed on April 20, 2007).

<sup>38</sup>See, e.g., id.; In re Manele Water Resources, LLC, Docket No. 2006-0166, Proposed Decision and Order No. 23250, filed on February 7, 2007; and Decision and Order No. 23295, filed on March 13, 2007; In re Pukalani STP Co., Ltd., Docket No. 05-0025, Proposed Decision and Order No. 22015, filed on September 7, 2005; and Decision and Order No. 22052, filed on September 28, 2005.



the Stipulation, LWC's revised Rules and Regulations, reflecting their stipulated changes.<sup>39</sup>

Upon review, the commission finds that the Parties' agreed-upon revisions to LWC's Rules and Regulations, as reflected in Exhibits D and E of the Stipulation, are reasonable and should be approved.

3.

Water System Facilities Charge ("WSFC")

The Consumer Advocate also had concerns with LWC's WSFC, set forth in Section 7, Paragraph 7.2 of LWC's Rules and Regulations. The Consumer Advocate specifically noted that this rule does not adequately describe the facilities for which the WSFC would be assessed, the dollar amount of the WSFC, or provide a calculation on which to base the WSFC.<sup>40</sup> As a result, the Parties stated: "During settlement discussions, the Parties agreed to address the Consumer Advocate's concerns, noted above and in its Direct Testimonies, via a tariff transmittal to be submitted after consultation with the Consumer Advocate and subsequent to the final decision and order in this proceeding."<sup>41</sup> Upon review, the commission finds this agreement to be reasonable.

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<sup>39</sup>Exhibit E of the Stipulation is a black-lined version of Exhibit D.

<sup>40</sup>See CA-T-2 at 25.

<sup>41</sup>Stipulation at 39.

### III.

#### Summary of Findings and Conclusions

The Parties' Stipulation results from arms-length negotiations, involving "give and take" on both sides. The commission finds that the Parties' Stipulation, taken as a whole, appears just and reasonable. Accordingly, for purposes of this proceeding, the commission approves the Parties' Stipulation, consistent with the terms of this Proposed Decision and Order. Nonetheless, the commission's approval of the Parties' Stipulation, and of the methodologies used herein, may not be cited as precedent by any parties in any future commission proceeding.

In sum, the commission finds and concludes:

1. The operating revenues and expenses for the Test Year, as set forth in Exhibit 1, attached, are reasonable.
2. LWC's average Test Year rate base, as set forth in Exhibit 2, attached, is reasonable.
3. LWC's rate of return of 8.85% is fair.
4. LWC is entitled to: (1) an increase in revenues of \$1,015,443, or approximately 132% over revenues at present rates; and (2) total operating revenues of \$1,784,377.
5. The Parties' stipulated rate design is reasonable.
6. LWC's proposal to establish and implement its APCAC is reasonable.
7. The Parties' agreed-upon revisions to LWC's tariff Rules and Regulations, are reasonable.

IV.

Acceptance or Non-Acceptance

Consistent with HRS § 269-16(f)(3), by July 11, 2007, each of the Parties shall notify the commission as to whether it:<sup>42</sup>

1. Accepts, in toto, the Proposed Decision and Order. If the Parties accept the Proposed Decision and Order, they "shall not be entitled to a contested case hearing, and [HRS] section 269-15.5 shall not apply."<sup>43</sup>

2. Does not accept, in whole or in part, the Proposed Decision and Order. If so, said Party shall give notice of its objection or non-acceptance and set forth the basis for its objection or non-acceptance.<sup>44</sup> Moreover, the Party's objection or non-acceptance shall be based on the evidence and information contained in the current docket record, i.e., the materials available to the commission at the time of its issuance of the Proposed Decision and Order.

Any Party that does not accept the Proposed Decision and Order "shall be entitled to a contested case hearing; provided that the [P]arties to the proceeding may waive the contested case hearing."<sup>45</sup> The commission shall make every effort

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<sup>42</sup>This deadline date is consistent with the deadline for filing a motion for reconsideration of a commission decision or order. See HAR §§ 6-61-137 (ten-day deadline to file motions for reconsideration); 6-61-21(e) (two days added to a prescribed period for service by mail); and 6-61-22 (computation of time).

<sup>43</sup>HRS § 269-16(f)(3).

<sup>44</sup>See id.

<sup>45</sup>Id.

to complete its deliberations and issue its Decision and Order by September 29, 2007.

The underlying purpose of HRS § 269-16(f) is to expedite the ratemaking process for public utilities with annual gross revenues of less than \$2 million. Consistent thereto, the commission has completed its review and timely issues this Proposed Decision and Order. Nonetheless, the commission makes it clear that if it is required to issue a Decision and Order due to the non-acceptance of the Proposed Decision and Order by one or both of the Parties, the commission is free to review anew the entire docket and all issues therein.

V.

Orders

THE COMMISSION ORDERS:

1. The Parties' Stipulation, filed on June 15, 2007, is approved, consistent with the terms of this Proposed Decision and Order.

2. LWC may increase its rates to produce a total annual revenue increase of \$1,015,443, or approximately 132% over revenues at present rates, as shown on the attached Exhibit 1, representing an increase in LWC's revenue requirement to \$1,784,377.

3. LWC is authorized to earn an 8.85% rate of return on its average Test Year rate base, set forth in Exhibit 2, attached hereto.

4. LWC shall promptly file its revised tariff sheets and rates schedules for the commission's review and approval, which implement the tariff changes and increases in rates and charges authorized by this Proposed Decision and Order, with copies served upon the Consumer Advocate. LWC's tariff changes and increases in its rates and charges shall take effect upon the commission's review and approval of said filing.

5. Within ten days of the date of this Proposed Decision and Order, each of the Parties shall notify the commission as to whether it accepts, in toto, or does not accept, in whole or in part, this Proposed Decision and Order, consistent with Section IV, above. A Party's objection or non-acceptance shall be based on the evidence and information contained in the current docket record.

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

DONE at Honolulu, Hawaii


JUN 29 2007

PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

By   
Carlito P. Caliboso, Chairman

By   
John E. Cole, Commissioner

APPROVED AS TO FORM:

  
Kaiulani Kidani Shinsato  
Commission Counsel

2006-0502.eh

**DOCKET NO. 2006-0502  
LAIE WATER COMPANY, INC.  
RESULTS OF OPERATIONS  
TEST YEAR ENDED DECEMBER 31, 2007**

	<u>Present Rates</u>	<u>Additional Amount</u>	<u>Proposed Rates</u>
<b>REVENUES</b>			
Customer Charges - Monthly Usage	\$ 742,770	\$ 991,443	\$ 1,734,213
Customer Charges - Monthly Fixed	21,000	20,700	41,700
Customer Charges - Flat Rate	2,364	-	2,364
Reconnection Charges	1,000	1,000	2,000
Other	1,500	2,000	3,500
Late Fees	300	300	600
Total Operating Revenues	<u>768,934</u>	<u>1,015,443</u>	<u>1,784,377</u>
<b>OPERATING &amp; MAINT. EXPENSES</b>			
Electricity	108,600	-	108,600
Salaries and Wages	165,600	-	165,600
Employee Taxes and Benefits	79,021	-	79,021
Shared & Administrative Services	133,518	-	133,518
Maintenance & Repairs	36,116	-	36,116
Insurance	36,749	-	36,749
Vehicle & Heavy Equipment	700	-	700
Operating Supplies	5,600	-	5,600
Legal & Other Professional	15,000	-	15,000
Misc. Employee Expense	1,000	-	1,000
Office Expense	1,600	-	1,600
Waste Removal	600	-	600
Amortization of Rate Case Expense	59,823	-	59,823
Other	2,000	-	2,000
Total O & M Expenses	<u>645,927</u>	<u>-</u>	<u>645,927</u>
Depreciation	263,484		263,484
TOTIT	49,096	64,836	113,932
Income Taxes	(71,981)	360,945	288,964
Net Operating Expense	<u>240,600</u>	<u>425,781</u>	<u>666,380</u>
Net Operating Income (Loss)	<u>\$ (117,593)</u>	<u>\$ 589,662</u>	<u>\$ 472,070</u>
Average Rate Base	<u>\$ 5,334,125</u>		<u>\$ 5,334,125</u>
Return on Rate Base	<u>-2.20%</u>		<u>8.85%</u>

**DOCKET NO. 2006-0502  
 LAIE WATER COMPANY, INC.  
 TAXES OTHER THAN INCOME TAXES  
 TEST YEAR ENDED DECEMBER 31, 2007**

	<u>Tax Rates</u>	<u>Present Rates</u>	<u>Adjustments</u>	<u>Proposed Rates</u>
Total Operating Revenues		\$ 768,934	\$ 1,015,443	\$ 1,784,377
Public Company Service Tax	5.885%	45,252	59,759	105,011
Public Utility Fee	0.500%	3,845	5,077	8,922
Total Revenue Taxes	6.385%	\$ 49,096	\$ 64,836	\$ 113,932



**DOCKET NO. 2006-0502  
LAIE WATER COMPANY, INC.  
INCOME TAX EXPENSE  
TEST YEAR ENDED DECEMBER 31, 2007**

	<u>Present Rates</u>	<u>Proposed Rates</u>
<b>REVENUES</b>		
Customer Charges - Monthly Usage	\$ 742,770	\$ 1,734,213
Customer Charges - Monthly Fixed	21,000	41,700
Customer Charges - Flat Rate	2,364	2,364
Reconnection Charges	1,000	2,000
Other	1,500	3,500
Late Fees	300	600
Total Operating Revenues	<u>768,934</u>	<u>1,784,377</u>
<b>OPERATING &amp; MAINT. EXPENSES</b>		
Electricity	108,600	108,600
Salaries and Wages	165,600	165,600
Employee Taxes and Benefits	79,021	79,021
Shared & Administrative Services	133,518	133,518
Maintenance & Repairs	36,116	36,116
Insurance	36,749	36,749
Vehicle & Heavy Equipment	700	700
Operating Supplies	5,600	5,600
Legal & Other Professional	15,000	15,000
Misc. Employee Expense	1,000	1,000
Office Expense	1,600	1,600
Waste Removal	600	600
Amortization of Rate Case Expense	59,823	59,823
Other	2,000	2,000
Total O & M Expenses	<u>645,927</u>	<u>645,927</u>
Depreciation	263,484	263,484
TOTIT	49,096	113,932
Net Operating Expense	<u>312,580</u>	<u>377,416</u>
Taxable Income	<u>\$ (189,573)</u>	<u>\$ 761,034</u>
Income Tax Provision	37.9699% (71,981)	288,964
Income Tax Expense	<u>\$ (71,981)</u>	<u>\$ 288,964</u>

**DOCKET NO. 2006-0502  
LAIE WATER COMPANY, INC.  
AVERAGE RATE BASE  
TEST YEAR ENDED DECEMBER 31, 2007**

<b>Description</b>	<u>At 12/31/2006</u>	<u>At 12/31/2007</u>	<u>Average</u>
Plant in Service	\$ 7,322,499	\$ 8,086,846	
Accum. Depreciation	1,928,034	2,191,518	
Net-Plant-in-Service	<u>5,394,465</u>	<u>5,895,328</u>	\$ 5,644,897
Deduct:			
Customer Deposits	-	-	
CIAC	252,323	282,429	
Accumulated Amortization of CIAC	(63,581)	(80,116)	
Accumulated Deferred Income Tax	213,806	225,683	
HCGETC	101,356	129,735	
Subtotal	<u>503,904</u>	<u>557,731</u>	530,818
Add:			
Water Rights	204,578	204,578	
Amortization of Water Rights	(35,802)	(40,916)	
Subtotal	<u>168,776</u>	<u>163,662</u>	166,219
Average			5,280,298
Working Cash at Present Rates			<u>53,827</u>
Rate Base at Present and Proposed Rates			<u>\$ 5,334,125</u>

CERTIFICATE OF SERVICE

I hereby certify that I have on this date served a copy of the foregoing Proposed Decision and Order No. 23522 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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

MICHAEL H. LAU, ESQ.  
KENT D. MORIHARA, ESQ.  
KRIS N. NAKAGAWA, ESQ.  
RHONDA L. CHING, ESQ.  
MORIHARA LAU & FONG LLP  
Davies Pacific Center  
841 Bishop Street, Suite 400  
Honolulu, HI 96813

Counsel for Laie Water Company, Inc.

R. ERIC BEAVER, PRESIDENT  
JACE L. MCQUIVEY, ESQ.  
LAIE WATER COMPANY, INC.  
55-510 Kamehameha Highway  
Laie, HI 96762

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

DATED: JUN 29 2007