

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application of )  
 )  
KRWC CORPORATION, dba )  
KOHALA RANCH WATER COMPANY )  
 )  
For Review and Approval of its )  
Proposed Preferential Agricultural )  
Potable Water Rate and Criteria )  
for Bona Fide Agribusinesses )  
Pursuant to Act 169, 2008 Session )  
Laws of Hawaii, and Other )  
Ratemaking Matters Including )  
Without Limitation, Rate Increases, )  
Revised Rate Schedules and Revised )  
Rules. )  
\_\_\_\_\_ )

DOCKET NO. 2008-0283

PROPOSED DECISION AND ORDER

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

PUBLIC UTILITIES  
COMMISSION

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Proposed Decision and Order

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doing, the commission, in response to KRWC's Application,<sup>2</sup> approves the Amended and Restated Stipulation of Settlement Agreement in Lieu of [KRWC's] Rebuttal Testimonies, jointly filed by the Parties on April 28, 2009.<sup>3</sup> The commission, in approving the Stipulation: (1) authorizes an across-the-board increase in KRWC's monthly meter charge, monthly water consumption charge, and hydrant rental charge; and (2) authorizes the implementation of a Preferential Agricultural Potable Water Rate.

I.

Background

A.

KRWC

KRWC is a public utility that provides potable water service within its Kohala service area on the island of Hawaii. KRWC presently serves approximately 400 customers located in the Kohala Estates, Kohala Ranch, Kohala Waterfront, and the Kohala by the Sea developments.<sup>4</sup> KRWC's potable water system includes two wells (Well No. 1 and Well No. 2), well and booster pumps, reservoirs, transmission lines, distribution mains, and other

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<sup>2</sup>Application; Exhibits KRWC 1 to KRWC 12; Exhibit KRWC-T-100; Attachment 1 to 3; Verification; and Certificate of Service, filed on November 12, 2008 (collectively, "Application").

<sup>3</sup>Amended and Restated Stipulation of Settlement Agreement in Lieu of Rebuttal Testimonies; Exhibits KRWC-A to KRWC-E; Attachments 1 to 7; Attachment PUC-IR-101; and Certificate of Service, filed on April 21, 2009 (collectively, "Amended Stipulation" or "Stipulation").

<sup>4</sup>KRWC's customers include the State Department of Hawaiian Home Lands. KRWC's response to CA-IR-28.a.

plant and equipment. KRWC's sole shareholder is Robert Acree. According to KRWC, it "provides approximately 250,000,000 gallons of water annually in a service territory spread over approximately 5,000 acres and ranging in elevation from sea level to over 3,000 feet."<sup>5</sup>

KRWC's current rate design consists of: (1) a monthly meter charge that varies depending on the size of the customer's meter; (2) a monthly water consumption charge; (3) a hydrant rental charge, to the extent applicable; and (4) an Automatic Power Cost Adjustment Charge ("APCAC").

During November 2008, KRWC experienced the back-to-back failure of its two wells, Well No. 1 and Well No. 2, resulting in both wells being taken out of service by the water utility, pending repairs. As a result, KRWC instituted certain measures to continue water service within its service area, including hauling water from the Kawaihae area to its reservoirs, and implementing mandatory conservation measures for its customers.<sup>6</sup> Both wells were eventually repaired and placed back into service.<sup>7</sup>

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<sup>5</sup>KRWC-T-100, at 22.

<sup>6</sup>KRWC's response to CA-IR-29.a, and Attachment CA-IR-29.a (KRWC's Notices to its Customers, dated November 18, 24, and 25, 2008, and December 9, 2008, regarding Well No. 1 and Well No. 2); see also Exhibit KRWC-T-100, at 13 (replacing the existing pump and motor for Well No. 1); and KRWC's response to CA-IR-25.a, and Attachments CA-IR-25.a and CA-IR-29.b (the loss of both wells during an eight-day period from November 22 to 30, 2008).

<sup>7</sup>KRWC's response to CA-IR-25.a, and Attachment CA-IR-25.a (repairs to Well No. 1 completed November 30, 2008, repairs to Well No. 2 completed December 31, 2008).

KRWC is proceeding with the purchase and installation of its Well No. 3, which the water utility estimates will be required during the year 2012.<sup>8</sup>

B.

KRWC's Requests

KRWC seeks an increase in its revenues of \$448,051 (approximately 23.9 percent) over its present total revenue requirement of approximately \$1,873,623. The requested increase is based on an estimated total revenue requirement of \$2,321,684 for the 2009 calendar test year, and a rate of return of 8.85 percent. KRWC proposes to implement the approximate 23.9 percent increase in its overall total revenue requirement in the following manner: (1) increase its various monthly meter charges by fifty to fifty-one percent; (2) increase its monthly water consumption charge by fifty-one percent; (3) increase its hydrant rental charge by fifty-one percent; and (4) establish a preferential agricultural potable water rate for qualified agricultural activities, otherwise known as the Preferential Agricultural Potable Water Rate, that will be set at approximately 34.4 percent less than the monthly water consumption rate that is currently charged for potable water service. As a result, KRWC's present and proposed rates, as set forth in its Application, are as follows:

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<sup>8</sup>Exhibit KRWC-T-100, at 7-8 and 22; see also In re KRWC Corp., dba Kohala Ranch Water Co., Docket No. 2007-0376, Decision and Order, June 18, 2008 (approving certain financing and security arrangements for various purposes, including the purchase and installation of Well No. 3).

Monthly Meter Charges

<u>Size of Meter</u>	<u>Present Rate</u>	<u>Proposed Rate</u>	<u>% Change</u>
5/8"	\$16.00	\$24.00	50% increase
1"	\$46.00	\$69.00	50% increase
1-1/2"	\$88.00	\$133.00	51% increase
2"	\$120.00	\$181.00	51% increase
3"	\$240.00	\$362.00	51% increase

Monthly Water Consumption Charge

<u>Description</u>	<u>Present Rate</u>	<u>Proposed Rate</u>	<u>% Change</u>
Monthly Water Consumption Charge	\$5.635 per thousand gallons ("TG")	\$8.4907 per TG	51% increase
Preferential Agricultural Potable Water Rate (for qualified Agricultural Activities only)	\$5.635 per TG*	\$3.6952 per TG	34.4% decrease

\*KRWC explains that: (1) while no Preferential Agricultural Potable Water Rate currently exists, customers that may qualify for this proposed Preferential Agricultural Potable Water Rate are currently being assessed the existing Monthly Water Consumption Charge of \$5.635 per TG that applies to all of KRWC's customers; thus (2) the proposed Preferential Agricultural Potable Water Rate will result in a 34.4 percent reduction in the Monthly Water Consumption Charge for qualifying customers. Any qualifying customer will also be subject to any other applicable charges set forth in KRWC's tariff, including the Monthly Meter Charge, Automatic Power Cost Adjustment Charge, Meter Installation Charge, and Hydrant Rental Charge.

Hydrant Rental Charge

	<u>Present Rate</u>	<u>Proposed Rate</u>	<u>% Change</u>
Per meter**	\$10.85/day	\$16.40/day	51% increase

\*\*All water utilized by the temporary hydrant rental shall be charged at \$8.4907 per TG of water used plus the APCAC.

KRWC seeks to implement its proposed Preferential Agricultural Potable Water Rate in accordance with Act 169, 2008 Session Laws of Hawaii ("Act 169"). Act 169, which took effect

in June 2008: (1) establishes a policy of providing preferential potable water rates for qualified agricultural activities; and (2) provides that such preferential rates, if approved by the commission, is subject to subsidization by the potable water rates charged to other customers of the water utility.

In support of the requested increase in its water rates, KRWC states that: (1) the proposed increase in water rates reflects the subsidization of the proposed Preferential Agricultural Potable Water Rate by KRWC's other customers, as required by Act 169, which is the primary reason for its Application; and (2) its operating expenses and rate base have increased since its last rate case.<sup>9</sup>

C.

Initial Filings

On November 12, 2008, KRWC filed its Application. On November 25, 2009, the Consumer Advocate filed its Statement of Position Regarding Completeness of Application, stating that it did not object to the completeness of KRWC's Application.<sup>10</sup> On

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<sup>9</sup>See In re KRWC Corp., dba Kohala Ranch Water Co., Docket No. 05-0334 ("Docket No. 05-0334"), Interim Decision and Order No. 23013, filed on November 3, 2006 (interim rate relief authorized by the commission based on KRWC's 2006 calendar test year revenue requirement); see also Docket No. 05-0334, Decision and Order No. 23404, filed on May 1, 2007 (authorizing a final rate increase of 60.24 percent based on KRWC's 2006 calendar test year revenue requirement). Concomitantly, KRWC represents that it does not anticipate any increases in its plant-in-service during 2009, i.e., its Test Year period. See Exhibit KRWC-T-100, at 13-14.

<sup>10</sup>Consumer Advocate's Statement of Position Regarding Completeness of Application; and Certificate of Service, filed on November 25, 2008.

December 8, 2008, the commission: (1) held that the filing date of KRWC's complete Application was November 12, 2008, consistent with HRS § 269-16(f)(3); and (2) on its own motion, named the DOA as a participant in this proceeding for the limited purpose of assisting the commission in establishing the requisite criteria for bona fide agribusinesses to qualify for the preferential water rate for agricultural activities, pursuant to Act 169.<sup>11</sup>

D.

Public Hearing Process

A Notice of Public Hearing was published statewide in various newspapers, in accordance with HRS §§ 1-28.5, 269-12(c), and 269-16(b).<sup>12</sup> In addition, on December 9, 2008, KRWC provided written notice to its ratepayers of the commission's public hearing.<sup>13</sup>

On January 15, 2009, the commission held a public hearing at the Waimea Civic Center for the purpose of providing interested persons with the opportunity to comment on KRWC's requests. Representatives from KRWC and the Consumer Advocate submitted written comments and testified. In addition, individual ratepayers appeared and testified, with some

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<sup>11</sup>Order Regarding Completed Application and Other Initial Matters, filed on December 8, 2008.

<sup>12</sup>See Notice of Public Hearing; and Affidavits of Publication by the Honolulu Star-Bulletin, Hawaii Tribune-Herald, West Hawaii Today, The Maui News, and The Garden Island.

<sup>13</sup>KRWC's letter, dated January 8, 2009, enclosing a sample copy of its Notice of Public Hearing. KRWC also held two informational meetings with its customers, on November 18 and December 18, 2008. See KRWC's letters, dated November 18, 2008 and January 8, 2009, with enclosures.

individuals also submitting written comments.<sup>14</sup> In general, the ratepayers opposed the requested increase in KRWC's water rates, identifying certain questions and concerns with the information set forth in KRWC's Application.<sup>15</sup> During the public hearing, KRWC's representative was provided with the opportunity to orally respond to the questions and concerns raised by the individual ratepayers. KRWC's representative testified in response thereto.

E.

DOA's Comments

On January 29, 2009, the DOA submitted its written comments, expressing its views on KRWC's proposed definition of Agricultural Activities and qualifying criteria for bona fide agribusinesses, in response to the commission's request.<sup>16</sup> On March 4 and 5, 2009, the Consumer Advocate and KRWC filed their respective responses to the DOA's written comments.<sup>17</sup>

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<sup>14</sup>See Commission's letters, dated January 20, 22, and 26, 2009, and February 10, 2009, forwarding copies of written comments to the Parties and DOA. Additional written comments were also submitted to the commission by interested persons. See Commission's letters, dated January 27, 2009, February 19, 2009, March 10 and 16, 2009, April 22, 2009, and May 5, 2009, forwarding copies of written comments to the Parties and DOA.

<sup>15</sup>A representative from Palila Growers, LLC, testified in support of the Preferential Agricultural Potable Water Rate proposed by KRWC.

<sup>16</sup>Commission's letter, dated December 11, 2008; and DOA's letter, dated January 28, 2009, filed on January 29, 2009.

<sup>17</sup>Commission's letter, dated February 2, 2009; the Consumer Advocate's letter, dated March 4, 2009; and KRWC's letter, dated March 5, 2009.

F.

Consumer Advocate's Statement of Position  
and the Parties' Stipulation

On March 25, 2009, the Consumer Advocate filed its Direct Testimonies and Exhibits.<sup>18</sup> Subsequently, by letter dated March 30, 2009, KRWC informed the commission that based on the water utility's review of the Consumer Advocate's Direct Testimonies and Exhibits, it intended to engage in settlement discussions with the Consumer Advocate. By reply letter dated April 2, 2009, the commission instructed the Parties as follows:

In their efforts to reach agreement on a written stipulation, the Parties shall adhere to the following guidelines: (1) the settlement agreement should fully explain and provide the supporting bases (calculations, worksheets, data, and all other evidence) or other rationale to justify and support a commission finding that the proposed revenue requirements (revenues, expenses, rate base, and rate of return) set forth in the stipulation are just and reasonable, including the applicable citations to the docket record; and (2) the revenues, expenses, and rate base amounts agreed-upon by the Parties should be consistent with the test year concept, and utilize a normalized test year period.

Commission's letter, dated April 2, 2009, at 1-2 (footnotes and citations therein omitted).

On April 21, 2009, the Parties filed their Stipulation of Settlement Agreement in Lieu of [KRWC's] Rebuttal Testimonies (the "Original Stipulation"). On April 22, 2009, the commission issued a clarifying information request, instructing the Parties to explain, with references to the docket record, their calculations for each stipulated component of operating revenues

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<sup>18</sup>Consumer Advocate's Direct Testimonies T-1 and T-2; Exhibits; and Certificate of Service, filed on March 25, 2009.

at present rates. On April 28, 2009, the Parties filed their Amended Stipulation, which is designed to supersede and replace in its entirety the Original Stipulation. In particular, as explained by the Parties:

. . . . This Amended Stipulation is being filed by the Parties to respond to the Commission's information request (i.e., PUR-IR-101) submitted on April 22, 2009 requesting for clarifying information on the Parties' stipulated revenues at present rates. At the same time, the Parties have also made additional minor, non-substantive changes and corrected certain numbers and schedules noted in the Original Stipulation and its applicable exhibits that were either incorrect or inadvertently miscalculated. All of these changes are further explained in Attachment 6 and reflected in Attachment 7 attached hereto. In particular, Attachment 6 provides a chart describing in detail these changes, which changes have been agreed to by the Parties. Attachment 7 is a "black-lined" document that shows the changes made to the original Stipulation.

Stipulation, at 9 n.20.

#### G.

##### Issues

As set forth in Section I of the Stipulated Procedural Order filed on February 11, 2009, the issues as stipulated by the Parties are:

1. Whether KRWC's proposed rate increases are reasonable.
  - A. Whether the proposed tariffs, rates, and charges are just and reasonable.
  - B. Whether the revenue forecasts for the Test Year at present and proposed rates are reasonable.
  - C. Whether the projected operating expenses for the Test Year are reasonable.

- D. Whether the projected rate base for the Test Year is reasonable, and are the properties included in the rate base used or useful for public utility purposes.
  - E. Whether the requested rate of return is fair.
2. Whether the proposed Preferential Agricultural Potable Water Rate and criteria for bona fide agribusinesses submitted pursuant to Act 169 are reasonable.

II.

Discussion

Act 169, codified at HRS §§ 269-1 and 269-26.5, provides:

**§269-1 Definitions.** As used in this chapter:

"Agricultural activities" means a commercial agricultural, silvicultural, or aquacultural facility or pursuit conducted, in whole or in part, including the care and production of livestock and livestock products, poultry and poultry products, apiary products, and plant and animal production for nonfood uses; the planting, cultivating, harvesting, and processing of crops; and the farming or ranching of any plant or animal species in a controlled salt, brackish, or freshwater environment.

**§ 269-26.5 Preferential water rates for agricultural activities.** (a) It is the policy of the State to promote the long-term viability of agriculture by establishing mechanisms that provide for preferential rates for potable water for agricultural activities. The public utilities commission shall have the authority to establish preferential rates for potable water used for agricultural activities in a public utility's service area.

(b) Upon receipt of a bona fide request for preferential rates for potable water to be used for agricultural activities, and proof that the customer engages in agricultural activities, a public utility shall provide proposed preferential rates for potable water to be used only for qualified agricultural activities to the public utilities commission for approval. All such rates approved by the public utilities commission shall be subsidized by the potable water rates charged to other customers of the public utility if required as determined by the public utilities commission. In reviewing the proposed preferential rates, the public utilities commission, in consultation with the department of agriculture, may establish additional criteria to qualify bona fide agribusinesses for water used solely for agricultural activities. For rate cases initiated pursuant to this section, the public utilities commission shall allow the recovery of any reasonable unamortized costs incurred by the public utility in its previous rate case; provided however, upon full amortization of these costs, rates shall be adjusted accordingly.

HRS §§ 269-1 and 269-26.5.

KRWC's Application represents the first request by a water utility to establish criteria for bona fide agribusinesses to qualify for the preferential water rate for agricultural activities pursuant to Act 169. According to KRWC, "it has received a bona fide request from two customers at this time requesting the establishment of a preferential potable water rate for their agricultural activities."<sup>19</sup> KRWC specifically cites to its letter dated July 17, 2008, to Pete Eising of Palila Growers LLC (Kamuela, Hawaii), acknowledging the receipt of Mr. Eising's formal request to establish an agricultural water rate pursuant

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<sup>19</sup>Application, at 5; see also KRWC's response to CA-IR-2; and Attachment CA-IR-2b (Part 1).

to Act 169.<sup>20</sup> In addition, KRWC cites to a written note from Kahua Ranch, expressing a similar interest.<sup>21</sup>

HRS § 269-16(f), which applies to public utilities with annual gross revenues of less than \$2 million, states in relevant part:

(f) Notwithstanding any law to the contrary, for public utilities having annual gross revenues of less than \$2,000,000, the commission may make and amend its rules and procedures to provide the commission with sufficient facts necessary to determine the reasonableness of the proposed rates without unduly burdening the utility company and its customers. In the determination of the reasonableness of the proposed rates, the commission shall:

. . . .

(3) Make every effort to complete its deliberations and issue a proposed decision and order within six months from the date the public utility files a completed application with the commission; provided that all parties to the proceeding strictly comply with the procedural schedule established by the commission and no person is permitted to intervene. If a proposed decision and order is rendered after the six-month period, the commission shall report in writing the reasons therefor to the legislature within thirty days after rendering the proposed decision and order. Prior to the issuance of the commission's proposed decision and order, the parties shall not be entitled to a contested case hearing.

If all parties to the proceeding accept the proposed decision and order, the parties shall not be entitled to a contested case hearing, and section 269-15.5 shall not apply. If the commission permits a person to intervene, the six-month period shall

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<sup>20</sup>See Application, Attachment 2.

<sup>21</sup>KRWC's response to CA-IR-2; and Attachment CA-IR-2b (Part 2).

not apply and the commission shall make every effort to complete its deliberations and issue its decision within the nine-month period from the date the public utility's completed application was filed, pursuant to subsections (b), (c), and (d).

If a party does not accept the proposed decision and order, either in whole or in part, that party shall give notice of its objection or nonacceptance within the timeframe prescribed by the commission in the proposed decision and order, setting forth the basis for its objection or nonacceptance; provided that the proposed decision and order shall have no force or effect pending the commission's final decision. If notice is filed, the above six-month period shall not apply and the commission shall make every effort to complete its deliberations and issue its decision within the nine-month period from the date the public utility's completed application was filed as set forth in subsection (d). Any party that does not accept the proposed decision and order under this paragraph shall be entitled to a contested case hearing; provided that the parties to the proceeding may waive the contested case hearing.

Public utilities subject to this subsection shall follow the standard chart of accounts to be approved by the commission for financial reporting purposes. The public utilities shall file a certified copy of the annual financial statements in addition to an updated chart of accounts used to maintain their financial records with the commission and consumer advocate within ninety days from the end of each calendar or fiscal year, as applicable, unless this timeframe is extended by the commission. The owner, officer, general partner, or authorized agent of the utility shall certify that the reports were prepared in accordance with the standard chart of accounts.

HRS § 269-16(f).

As a public utility with annual gross revenues of less than \$2 million, KRWC filed its Application pursuant to

HAR § 6-61-88 (general rate increase application filed by a public utility with annual gross revenues of less than \$2 million) and HRS § 269-16, specifically subsection (f). Moreover, KRWC and the Consumer Advocate are the only parties in this proceeding; there are no intervenors. Accordingly, the commission must make every effort to issue its Proposed Decision and Order within six months from the filing date of KRWC'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."<sup>22</sup>

The commission timely issues this Proposed Decision and Order, in accordance with HRS § 269-16(f)(3).<sup>23</sup>

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<sup>22</sup>HRS § 269-16(f)(3).

<sup>23</sup>The commission's issuance of its proposed written decision within six months from the filing of KRWC's complete application, i.e., by May 12, 2009, is predicated in part on the Parties "strictly comply[ing] with the procedural schedule established by the commission[.]" Here, pursuant to the commission's procedural schedule, the deadline for the Parties to file their settlement agreement, if any, was April 21, 2009. See Stipulated Procedural Order, filed on February 11, 2009, as amended. On April 21, 2009, the Parties filed their Original Stipulation, and a week later, on April 28, 2009, the Parties filed their Amended Stipulation, which supersedes and replaces in its entirety the Original Stipulation. In the commission's view, the filing of a new, superseding settlement agreement a week after the deadline date established by the commission does not constitute strict compliance with the commission's procedural schedule. Moreover, the Parties did not seek the commission's approval to extend, from April 21 to 28, 2009, the deadline by which to file their settlement agreement.

That said, consistent with the underlying purpose of HRS § 269-16(f), i.e., to expedite the ratemaking process for public utilities with annual gross revenue of less than two million dollars, and the overall interest of "secur[ing] the just, speedy, and inexpensive determination of [this] proceeding" under HAR § 6-61-1, the commission, on its own motion and in this

A.

Parties' Stipulation

1.

Terms and Conditions

The Stipulation represents the Parties' global settlement of all issues. In reaching their global settlement, the Parties note:

1. The Parties agree that the provisions set forth in Section III, Stipulated Matters, "of this Amended Stipulation are binding between them with respect to the resolution of the specific issues and matters previously of disagreement in the subject docket. In all respects, it is understood and agreed that the agreements evidenced in this Amended Stipulation represent the Parties' agreement to fully and finally resolve all issues in the subject docket on which they previously 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. Furthermore, the Parties agree that nothing contained in this Amended 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 Amended Stipulation."<sup>24</sup>

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specific instance: (1) accepts for review and disposition the Parties' superseding, Amended Stipulation; and (2) timely issues its Proposed Decision and Order herein.

<sup>24</sup>Stipulation, at 10-11.

2. "Each provision of [the] Amended Stipulation is in consideration and support of all other provisions, and is expressly conditioned upon acceptance by the Commission of the matters expressed in this Amended 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 Amended 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."<sup>25</sup>

Ultimately, the Parties acknowledge that the Stipulation is subject to the commission's review and approval, and that the commission is not bound by the Stipulation.

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. In re Hawaiian Elec. Co., Inc., 5 Haw. App. 445, 698 P.2d 304 (1985). With this mandate, the commission proceeds in reviewing whether the Parties' Stipulation appears just and reasonable, taken as a whole.

## 2.

### Summary

The Parties stipulate to a revenue requirement of \$1,939,715 based on a rate of return of 8.5 percent on KRWC's average Test Year rate base of \$3,136,403. The Stipulation

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<sup>25</sup>Stipulation, at 66.

results in an increase in revenues of \$336,400, or approximately 20.98 percent over revenues at present rates. The Parties state that "the result of this Amended Stipulation is to allow [KRWC] an opportunity to seek a return of reasonable expenses and earn a return on investment (i.e., net operating income). Once settlement was reached on the operating expenses, rate base and resulting revenue requirement . . . the Parties reached a settlement on [the] rate design."<sup>26</sup>

The rate design agreed-upon by the Parties, in essence, incorporates an across-the-board increase in the monthly meter charge, monthly water consumption charge, and hydrant rental charge of between twenty-four to twenty-five percent, with the exception of the Preferential Agricultural Potable Water Rate. For the Preferential Agricultural Potable Water Rate, the Parties stipulate to a monthly consumption charge of \$2.60 per TG, an amount that is: (1) approximately 53.9 percent less than KRWC's current water consumption charge of \$5.635 per TG; and approximately (2) 63.03 percent less than the new monthly water consumption charge of \$7.03366 per TG, approved by the commission in this Proposed Decision and Order.

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<sup>26</sup>Stipulation, at 11.

B.

Operating Revenues

The Parties stipulate to the following estimates of KRWC's revenues at present rates (Stipulation, Exhibit A):

<u>Description</u>	<u>Present Rates</u>
Meter charge	\$120,036
Consumption charge	\$1,398,006
Agricultural customers	\$13,584
Hydrant/other	\$13,767
APCAC	\$44,672
Installation	\$12,000
Finance charge/other	<u>\$1,250</u>
	\$1,603,315

The Parties' calculations of KRWC's revenues at present rates are set forth in their Stipulation, including their supporting exhibits and in their Attachment PUC-IR-101.<sup>27</sup>

1.

Meter Charge Revenues

KRWC assesses a monthly meter charge that is dependent on the size of the customer's meter, which ranges from 5/8 inches to three inches. The Parties stipulate to \$120,036 in meter charge revenues at present rates. The Parties' supporting calculations are set forth in Exhibit KRWC 11.1 of the Application, and in Exhibit KRWC A, pages 13-14, Exhibit KRWC C,

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<sup>27</sup>See Stipulation, Section III.B, Revenue, at 12-18; Exhibit KRWC C; and Attachment PUC-IR-101; see also Application, Exhibits KRWC 6, 11, 11.1, and 11.6.

and Attachment PUC-IR-101 of the Stipulation, and are summarized as follows:<sup>28</sup>

<u>Meter Size</u>	<u>Meter Count</u>	<u>Meter Charge Revenues at Present Rates</u>
5/8"	295	\$56,064
1"	95	\$52,164
1-1/2"	7	\$7,392
2"	1	\$1,440
3"	1	\$2,880
*		<u>\$96</u>
	Total	\$120,036

\*Denotes one customer for a six-month period at \$16 per month. (Exhibit KRWC C and Attachment PUC-IR-101)

2.

Consumption Charge,  
Agricultural Customers,  
Hydrant/Other

For the consumption charge, agricultural customers, and hydrant/other usage revenues, the Parties stipulate to utilizing "the average customer usage data for full years 2006, 2007 and 2008 by meter size by service area plus the hydrant and other usage in determining the Test Year customer usage data."<sup>29</sup> As reflected in Exhibit KRWC C and Attachment PUC-IR-101, this

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<sup>28</sup>For the: (1) 5/8" meters: \$16 monthly meter rate x 12 months x 295 meters = \$56,640, rounded to \$56,064; (2) 1" meters: \$46 monthly meter rate x 12 months x 95 meters = \$52,440, rounded to \$52,164; (3) 1-1/2 meters: \$88 monthly meter rate x 12 months x 7 meters = \$7,392; (4) 2" meter: \$120 monthly meter rate x 12 months x 1 meter = \$1,440; and (5) 3" meter: \$240 x 12 months x 1 meter = \$2,880. See Application, Exhibits KRWC 11.1 and 11.6 (Test Year meter counts).

<sup>29</sup>Stipulation, at 16.

methodology results in the following Test Year customer usage data and revenue amounts:<sup>30</sup>

<u>Description</u>	<u>Customer Usage</u>	<u>Usage Revenues at Present Rates</u>
Consumption charge	248,082,000 gallons	\$1,398,006 (rounded)
Agricultural customers	4,088,000 gallons	\$10,629
Hydrant/other	2,273,000 gallons	\$12,807 (rounded)

Next, for the agricultural customers and hydrant/other accounts, the Parties calculated the Test Year: (1) meter charge revenues for agricultural customers, in the amount of \$2,952; and (2) customer charge revenues for hydrant/other usage, in the amount of \$960.<sup>31</sup> The resulting calculations yield the following total Test Year revenues for the agricultural customers and hydrant/other accounts:

<u>Agricultural customers</u>	<u>Present Rates</u>
Usage revenues	\$10,629
Meter charge revenues	\$2,952
Rounding	<u>\$3</u>
Total	\$13,584

<u>Hydrant/other</u>	<u>Present Rates</u>
Usage revenues	\$12,807
Customer charge revenues	<u>\$960</u>
Total	\$13,767

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<sup>30</sup>For the consumption charge revenues: 248,082,000 gallons x \$5.635 per TG (KRWC's present consumption charge) = \$1,397,942, rounded to \$1,398,006. For the consumption charge/agricultural customer revenues: 4,088,000 x \$2.60 per TG (Parties' stipulated Preferential Agricultural Potable Water Rate) = \$10,629. For the hydrant/other usage revenues: 2,273,000 gallons x \$5.635 per TG (KRWC's present consumption charge) = \$12,808, rounded to \$12,807.

<sup>31</sup>See Exhibit KRWC C and Attachment PUC-IR-101. KRWC's rate schedule includes a daily hydrant rental charge, assessed as applicable.

In sum, the Parties stipulate to the following amounts for KRWC's Test Year consumption charge, agricultural customers, and hydrant/other revenues at present rates:

<u>Description</u>	<u>Present Rates</u>
Consumption charge	\$1,398,006
Agricultural customers	\$13,584
Hydrant/other	\$13,767

3.

#### APCAC Revenues

The APCAC revenues represent the amount of revenues collected by KRWC from its ratepayers, over and above base rates, in the water utility's assessment of the APCAC. The purpose of the APCAC, in turn, is to automatically pass through to KRWC's ratepayers, changes in the cost of electricity purchased and utilized by KRWC in pumping water.

The Parties stipulate to APCAC revenues of \$44,672 at present rates for the Test Year. The Parties' calculations, which are based on their stipulated amounts for Test Year purchased electricity and water sales, are set forth in their Exhibit KRWC C and Attachment PUC-IR-101.<sup>32</sup>

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<sup>32</sup>See also Stipulation, Section III.B.1.b, Automatic Power Cost Adjustment Clause Revenues, at 15-17. The Stipulation also reflects the re-setting of the APCAC revenues to zero at proposed rates, consistent with the commission's past practice. See, e.g., In re Kaupulehu Water Co., Docket No. 05-0124, Decision and Order No. 22199, filed on December 29, 2005, at 16 and Exhibit 1 attached thereto (re-setting of the water utility's power cost adjustment clause to zero at proposed rates).

4.

Installation Charge Revenues

Pursuant to its Tariff Rule VI.1, KRWC, as part of its application for service connection process, assesses a meter installation charge of \$2,000 per meter for the installation of a meter. The Parties stipulate to meter installation revenues of \$12,000 at present rates. The Parties' calculations, which are essentially based on the installation of six new meters during the Test Year, are set forth in their Attachment PUC-IR-101.<sup>33</sup>

5.

Finance Charge/Other Revenues

The Parties stipulate to finance charge/other revenues of \$1,250 at present rates, which is the amount set forth in KRWC's Application.<sup>34</sup>

6.

Total Revenues at Present Rates

The commission accepts as reasonable the Parties' stipulated estimates for KRWC's Test Year revenues at present rates.

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<sup>33</sup>\$2,000 x 6 new meter installations = \$12,000. See also CA-T-1, at 27; and Stipulation, at 14 n.22.

<sup>34</sup>See Application, Exhibits KRWC 6 and KRWC 11; and Stipulation, Exhibit KRWC C and Attachment PUC-IR-101.

C.

Operating Expenses

KRWC's operating expenses consist of the following categories: (1) operations and maintenance ("O&M") expenses; (2) depreciation; (3) amortization of contributions-in-aid-of-construction ("CIAC"); (4) revenue taxes; and (5) income taxes.

1.

O&M Expenses

Waimea Water Services provides the customer billing and general accounting services for KRWC, while KRWC's vice president is responsible for the overall management, administration, and operations of the water utility. The vice president "is contracted by KRWC to provide management services through his company, William L. Moore Planning, LLC."<sup>35</sup> In addition, KRWC has an Operation and Maintenance Services Agreement and a Landscaping Agreement with Dan's Field Services.

The Parties stipulate to the following O&M expense amounts for the Test Year:

<u>Description</u>	<u>Present Rates</u>
Purchased electricity	\$609,524
Water system maintenance	\$277,988
Grounds maintenance	\$30,000
Installation	\$4,739
Repairs and maintenance	\$8,783
Chemicals and testing	\$7,000
Gas, fuel, other	\$3,000

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<sup>35</sup>KRWC's response to CA-IR-14.f.2.

<u>Description</u>	<u>Present Rates</u>
Administrative, legal and professional	\$140,400
Insurance	\$28,187
Regulatory	\$36,750
General and administrative	\$20,000
Amortization of extraordinary expenses	<u>\$39,366</u>
Total, O&M expenses:	\$1,205,737

In general, the O&M expense amounts (excluding regulatory expenses and the amortization of extraordinary expenses) represent the normalized level of funds KRWC will expend during the Test Year to maintain and operate its water system to provide water utility service within its service area. These O&M expense amounts are supported by the docket record, as developed by KRWC.<sup>36</sup> Of particular note:

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<sup>36</sup>For the stipulated expense amounts of: (1) \$277,988 for water system maintenance, see Application, Exhibit KRWC 10.1, Water System Maintenance; and Stipulation, Section III.C.2, Water System Maintenance, at 19-20; and Exhibit KRWC A, at 5; (2) \$30,000 for grounds maintenance, see Application, Exhibit KRWC 10.3, Grounds Maintenance; and Stipulation, Section III.C.3, Grounds Maintenance, at 20-21; and Exhibit KRWC A, at 5; (3) \$4,739 for installation, see Application, Exhibit KRWC 10.5, Installation Expense; and Stipulation, Section III.C.4, Installation Expense, at 21; and Exhibit KRWC A, at 5; (4) \$8,783, for repairs and maintenance, see Application, Exhibit KRWC 10.4, Repairs and Maintenance; CA-T-1, at 56-58; and Stipulation, Section III.C.5, Repairs and Maintenance, at 21-23; and Exhibit KRWC A, at 5 and 7; see also KRWC's response to CA-IR-34; (5) \$7,000 for chemicals and testing, see Application, Exhibit KRWC 10.6, Chemicals & Testing; and Stipulation, Section III.C.6, Chemicals and Testing, at 24; and Exhibit KRWC A, at 5; (6) \$3,000 for gas, fuel, and other, see Application, Exhibit KRWC 10.7, Gas, Fuel, Other; and Stipulation, Section III.C.7, Gas, Fuel and Other, at 25; and Exhibit KRWC A, at 5; (7) \$28,187 for insurance, see Application, Exhibit KRWC 10.9, Insurance; KRWC's response to CA-IR-15, with attachments; and Stipulation, Section III.C.9, Insurance, at 31-33; Exhibit KRWC A, at 5; and Attachment 4, Updated KRWC Insurance; and (8) \$20,000 for general and administrative, see Application, Exhibit KRWC 10.11, G&A; and Stipulation,

1. The stipulated amount of \$609,524 for the Test Year purchased electricity expense is based on KRWC's APCAC rate for March 2009, as reflected in Exhibit A, page 6, and Exhibit C, page 2,<sup>37</sup> and a four percent water loss ratio.<sup>38</sup>

2. Administrative, legal, and professional consists of "services being provided for customer accounting and billing, financial and tax accounting, engineering, legal, regulatory and property management services."<sup>39</sup> The stipulated amount of \$140,400 for the Test Year administrative, legal, and professional expenses are based on the following sub-accounts, as supported by the docket record:

Billing services	\$9,000
Financial and tax accounting	\$4,800
Engineering	\$2,000
General	\$4,400
Legal	\$20,000
Management services	\$97,500
Amortization of financing costs	<u>\$2,700</u>
Total	\$140,400

See Application, Exhibit KRWC 10.8; KRWC's response to CA-IR-36; CA-T-1, Section VI.B.1 - VI.B.4, at 35-39; CA-T-1, at 36-39; and Stipulation, Section III.C.8, Administrative, Legal and Professional Expense, at 25-31; and Exhibit KRWC A, at 5 and 8.

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Section III.C.11, General and Administrative Expense, at 38-39; Exhibit KRWC A, at 5.

<sup>37</sup>Specifically,  $254,438 \text{ TG} \times \$2.39557/\text{TG} = \$609,524$ . See also Stipulation, Section III.C.1, Purchased Electricity, at 18-19; KRWC Exhibit A, at 5; and Attachment 1 (KRWC's updated electricity bills for the period from November 2008 to March 2009).

<sup>38</sup>See CA-T-1, at 33-34.

<sup>39</sup>Exhibit KRWC-T-100, at 19.

The largest sub-account expense of \$97,500 for KRWC's management services consists of: (A) KRWC's vice president's annual salary, as determined to be reasonable by the Consumer Advocate, allocated on a fifty percent basis to KRWC's management services expense, since the vice president is on call 24-hours per day, seven days per week, as part of his employment agreement with KRWC, and most of the vice president's time is spent working on KRWC matters (more so with the departure in 2006 of KRWC's office manager/internal accountant); plus (B) an administrative overhead allowance of thirty percent of the vice president's salary expense, based on the vice president's use of non-KRWC facilities to perform his managerial functions, and the self-payment of the vice president's benefits package.<sup>40</sup>

Regulatory expense, meanwhile, represents the reasonable amount of expenses incurred by KRWC to process this rate case, as agreed-upon by the Parties, amortized over a

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<sup>40</sup>Specifically, \$75,000 (\$149,300 x 50%, approximate) + \$22,500 (\$75,000 x 30%) = \$97,500. See KRWC's response to CA-IR-14.e (description of KRWC's vice president's duties and responsibilities, and the allocation of his time to KRWC's operations), and Attachment CA-IR-14.e.3; KRWC's response to CA-IR-14.f (KRWC's vice president is "responsible for all of his employment costs, including [the Federal Insurance Contributions Act], Social Security, Insurance, sick leave, etc."); CA-T-1, Section VI.B.5, Management Services, at 39-43; Stipulation, Section III.C.8.e, Management Services Expense, at 28-31; Exhibit KRWC A, at 8; Attachment 2, Time Sheets for William Moore; and Attachment 3, KRWC Administrative Overhead Expense; see also KRWC-T-100, at 19-22 (description of KRWC's vice president's duties and responsibilities). The allocation of the vice president's expenses between regulated operations (KRWC) and non-regulated operations is necessary because the vice president "also assists Mr. Acree in the management of his properties in Hawaii." KRWC's response to CA-IR-14.e.2.

four-year period.<sup>41</sup> Lastly, with respect to the amortization of extraordinary expenses, the Parties stipulate to including \$113,852 in actual emergency repair costs for Well No. 1, and \$82,976 in actual costs to haul water to KRWC's customers during the late 2008 emergency period, for a total of \$196,828, amortized over a five-year period. Accordingly, with the deferral and amortization of the costs associated with the emergency repair of Well No. 1 over a five-year period, the

<sup>41</sup>Specifically, the stipulated amount of \$36,750 is based on a total amount of \$147,000, amortized over a four-year period, as follows:

	<u>Preparation/ Filing</u>	<u>Discovery/ Settlement</u>	<u>Hearing/ Briefing</u>
Consulting	\$45,000	\$25,000	-
Legal	\$25,000	\$50,000	-
Travel	\$1,000	-	-
Other non-labor	<u>\$1,000</u>	<u>-</u>	-
	\$72,000	\$75,000	

\$147,000 x 25% = \$36,750. See Stipulation, Section III.C.10, Regulatory Expense, at 33-38; and Exhibit KRWC A, at 5 and 9; see also Application, Exhibit KRWC 10.10, Regulatory Expense; KRWC's response to CA-IR-16.a, with attachments (confirming the completion of the preparation/filing stage); and CA-T-1, 46-49. The four-year amortization period, the commission notes, closely approximates the estimated 2012 in-service date for Well No. 3. See Exhibit KRWC-T-100, at 25-27 (KRWC intends to file its next rate case to recover the costs associated with the new well currently planned for an in-service of 2012); and KRWC's response to CA-IR-16 (the anticipated completion date for Well No. 3 and Reservoir No. 4a).

The commission also notes that consistent with Act 169, HRS § 269-26.5(b) provides in part that "[f]or rate cases initiated pursuant to this section, the public utilities commission shall allow the recovery of any reasonable unamortized costs incurred by the public utility in its previous rate case; provided however, upon full amortization of these costs, rates shall be adjusted accordingly." Here, as part of the Stipulation, KRWC "agreed not to pursue unamortized rate case expense for purposes of this proceeding. Thus, the Parties have stipulated to a Test Year expense amount for unamortized regulatory expense of \$0." Stipulation, Section III.C.10.c, Unamortized Regulatory Expense, at 35-36; see also CA-T-1, at 49-50.

Parties stipulate to an annual amortization amount of \$39,366 for the Test Year.<sup>42</sup>

To reiterate, the Parties' stipulated amounts for KRWC's Test Year O&M expenses are supported by the docket record. The commission finds reasonable the Parties' estimates for KRWC's Test Year O&M expenses at present rates.

2.

Depreciation Expense

"In general, depreciation expense represents the systematic write-off of the cost of a plant's asset over the asset's depreciable life."<sup>43</sup>

The Parties stipulate to a Test Year depreciation expense amount of \$204,649 at present rates, an amount that is supported by the docket record.<sup>44</sup> The commission finds reasonable the Parties' stipulated amount.

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<sup>42</sup>See Stipulation, Section III.C.12, Amortization of Extraordinary Expenses, at 39-40; Section III.D.1.a(2), Deferral and Amortization of the Cost Associated with the Emergency Repair of Well No. 1, at 45-46; and Exhibit KRWC A, at 10; see also CA-T-1, at 67-70 (\$113,852 + \$82,976 = \$196,828).

<sup>43</sup>In re Waikoloa Resort Util., Inc., dba West Hawaii Util. Co., Docket No. 2006-0409, Decision and Order No. 24085, filed on March 10, 2008, at 32.

<sup>44</sup>See Application, Exhibits KRWC 9.3 and KRWC 9.4, and Workpaper KRWC 9.4, Depreciation Expense; and Stipulation, Section III.C.13, Depreciation, at 40; and Exhibit KRWC A at 5 and 11.

3.

Amortization of CIAC

The Parties stipulate to a Test Year expense amount of (\$24,785) for amortization of CIAC at present rates, an amount that is supported by the docket record.<sup>45</sup> The commission finds reasonable the Parties' stipulated amount.

4.

Revenue Taxes

KRWC's revenue taxes, otherwise known as taxes other than income taxes or TOTIT, consist of the: (1) State Public Service Company Tax ("PSCT"), 5.885 percent; and (2) State Public Utility Fee ("PUC Fee"), 0.50 percent. The Parties' calculation of revenue taxes is set forth in Exhibit KRWC A, page 4, of the Stipulation. The commission finds reasonable the Parties' stipulated amounts of \$102,372 and \$123,851 for revenue taxes at present and proposed rates, calculated as follows:

PSCT: 5.885% x \$1,603,315*	=	\$94,355
PUC Fee: 0.50% x \$1,603,315*	=	<u>\$8,017</u>

Total revenue taxes	\$102,372
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\*Revenues at present rates

PSCT: 5.885% x \$1,939,715*	=	\$114,152
PUC Fee: 0.50% x 1,939,715	=	<u>\$9,699</u>

Total revenue taxes:	\$123,851
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\*Revenues at proposed rates.

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<sup>45</sup>See Application, Exhibit KRWC 9.6; and Stipulation, Section III.C.14, Amortization of Contributions in Aid of Construction, at 40.

5.

Income Taxes

The Parties' methodology for calculating income taxes is set forth in Exhibit KRWC A, page 3, of the Stipulation. In essence, income taxes are calculated based on the applicable graduated tax rates assessed by the State and federal governments. The Parties' method and calculation of income tax expense is consistent with past commission practice. The commission finds reasonable the respective amounts of \$31,974 and \$163,638 for income taxes at present and proposed rates.

D.

Rate Base

Exhibit KRWC B of the Stipulation set forth the Parties' agreed-upon calculations for KRWC's Test Year rate base of \$3,136,403. In general, KRWC's rate base consists of its net plant-in-service (i.e., plant-in-service minus accumulated depreciation reserve), less net CIAC, customer deposits, and accumulated deferred income taxes ("ADIT"), plus working cash, as follows:

Average Rate Base, Test Year

Plant-in-service	\$8,637,803
Accumulated depreciation	<u>(\$4,402,520)</u>
Net plant-in-service	\$4,235,283

Deductions

Net CIAC	(\$162,315)
Customer deposits	(\$22,000)
ADIT	(\$1,015,044)

Addition

Working cash	<u>\$100,478</u>
Average rate base	\$3,136,403

The Parties stipulate to the use of an average Test Year rate base in determining KRWC's Test Year revenue requirement, which is consistent with past commission practice.<sup>46</sup>

1.

Net Plant-in-Service

In general, KRWC's plant-in-service, less accumulated depreciation, i.e., its net plant-in-service, reflects its share of investments in the water utility's potable water system. The net plant-in-service balance constitutes the major component of KRWC's average Test Year rate base. The Parties' agreement on the net plant-in-service balance, in effect, reflects the net investment in utility property utilized by KRWC in providing water utility service during the Test Year period.

The stipulated average plant-in-service amount of \$8,637,803 includes the following areas of compromise between the Parties: (1) Account No. 101313; (2) emergency replacement costs for Well No. 2; and (3) Account No. 101314.<sup>47</sup> Specifically:

1. KRWC, for purposes of settlement, agrees with the Consumer Advocate's recommendation to "remove \$124,956.39 of

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<sup>46</sup>See, e.g., In re Waikoloa Resort Util., Inc., dba West Hawaii Util. Co., Docket No. 2006-0409, Decision and Order No. 24085, filed on March 10, 2008, at 34.

<sup>47</sup>The emergency repair costs for Well No. 1 were previously discussed in the O&M Expenses Section of this Decision and Order.

Asset ID 227 from Account No. 101313 related to repairs attributable to an earthquake and flood in the 2006 and 2007 timeframe[.]”<sup>48</sup> The Consumer Advocate, in seeking the disallowance of the \$124,956 from Account No. 101313, reasoned that such extraordinary items and associated expenses should be: (1) expensed, not capitalized; or (2) subject to deferred recovery, but only upon the commission's prior approval.<sup>49</sup>

2. The Parties stipulate to the inclusion of \$426,954 in emergency replacement costs incurred by KRWC for the replacement of Well No. 2.<sup>50</sup>

3. The Parties stipulate to including \$337,550 in Account No. 101314, to reflect the back-up pump equipment KRWC intends to purchase in 2009 for Well No. 1.<sup>51</sup>

Given the agreed-upon amount of \$8,637,803 for KRWC's plant-in-service, the Parties stipulate to: (1) accumulated depreciation of \$4,402,520;<sup>52</sup> and (2) a net plant-in-service balance of \$4,235,283. The commission finds reasonable these

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<sup>48</sup>Stipulation, at 45.

<sup>49</sup>See CA-T-1, at 65-67; and Stipulation, Section III.D.1.a(1), Removal of \$124,956 (Asset ID 227) From Account No. 101313, at 43-45.

<sup>50</sup>See Stipulation, Section III.D.1.a(3), Emergency Replacement Cost of \$426,954 for Well No. 2, at 47; see also CA-T-1, at 70-71 (\$426,954).

<sup>51</sup>See Stipulation, Section III.D.1.a(4), Addition of \$337,550 to Account No. 101314, at 47; see also CA-T-71 (\$337,550).

<sup>52</sup>See Stipulation, Section III.D.1.b, Accumulated Depreciation Reserve, at 48-49; Exhibit KRWC B, at 3, Plant in Service; and Exhibit KRWC B, at 4, Accumulated Depreciation.

stipulated amounts and the compromises reached by the Parties in calculating these amounts.

2.

Net CIAC

The Parties stipulate to a CIAC balance of \$162,315 for the Test Year, an amount that is supported by the docket record.<sup>53</sup> The commission finds reasonable this stipulated amount.

3.

Customer Deposits

The Parties stipulate to a customer deposits amount of \$22,000 for the Test Year, an amount that is supported by the docket record.<sup>54</sup> The commission finds reasonable this stipulated amount.

4.

ADIT

In In re Young Bros., Ltd., Docket No. 2006-0396 ("Docket No. 2006-0396"), the commission noted:

ADIT represents the difference between the amount of income tax expense reported for book (i.e., ratemaking) and for tax purposes. In general, a regulated entity calculates and reports book depreciation expenses on a straight-line

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<sup>53</sup>See Application, Exhibit KRWC 9; and Stipulation, III.D.2, Net Contributions in Aid of Construction, at 49.

<sup>54</sup>See Application, Exhibit KRWC 9.7; and Stipulation, III.D.3, Customer Deposits, at 49-50.

basis (i.e., straight-line depreciation), but for tax purposes, the regulated entity may write-off the same asset on an accelerated basis, i.e., accelerated depreciation. The difference in tax liabilities calculated for book and tax purposes, respectively, generates deferred income taxes. Thus, the regulated entity must pass onto its ratepayers the tax benefits received as a result of the accelerated tax depreciation practices. For ratemaking purposes, the ADIT is reflected as a reduction to rate base.

Docket No. 2006-0396, Decision and Order No. 23714, filed on October 12, 2007, at 50.

The Parties stipulate to an ADIT amount of \$1,015,044 for the Test Year, an amount that is supported by the docket record.<sup>55</sup> The commission finds reasonable this stipulated amount.

5.

Working Cash

KRWC computes working cash by equating the work capital requirement to 1/12<sup>th</sup> of the total estimated O&M expenses for the Test Year. The 1/12<sup>th</sup> factor equates to an approximately thirty-day time lag between the rendering of the utility service and subsequent payment by the customer for the services rendered, and provides a reasonable estimation of KRWC's working capital requirement.

The Parties stipulate to the methodology for calculating working cash. Thus, as reflected in Exhibit KRWC B, page 5, of the Stipulation, the Parties stipulate to a working

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<sup>55</sup>See Application, Exhibit KRWC 9.8, ADIT, and Workpaper KRWC 9.8; and Stipulation III.D.4, Accumulated Deferred Income Taxes: Federal, at 50.

cash balance of \$100,478. The commission finds reasonable the Parties' stipulated amount for working cash.

E.

Rate of Return

As discussed by the Hawaii Supreme Court in In re Hawaii Elec. Light Co., Inc., 60 Haw. 625, 594 P.2d 612 (1979) ("In re HELCO"):

A fair return is the percentage rate of earnings on the rate base allowed a utility after making provision for operating expenses, depreciation, taxes and other direct operating costs. Out of such allowance the utility must pay interest and other fixed dividends on preferred and common stock. In determining a rate of return, the Commission must protect the interests of a utility's investors so as to induce them to provide the funds needed to purchase plant and equipment, and protect the interests of the utility's consumers so that they pay no more than is reasonable.

To calculate the rate of return, the costs of each component of capital - debt, preferred equity and common equity - are weighted according to the ratio each bears to the total capital structure of the company and the resultant figures are added together to yield a sum which is the rate of return.

The proper return to be accorded common equity is the most difficult and least exact calculation in the whole rate of return procedure since there is no contractual cost as in the case of debt or preferred stock[:]

Equity capital does not always pay dividends; all profits after fixed charges accrue to it and it must withstand all losses. The cost of such capital cannot be read or computed directly from the company's books. Its determination involves a judgment of what return on equity is necessary to enable

the utility to attract enough equity capital to satisfy its service obligations.

. . . . .  
Questions concerning a fair rate of return are particularly vexing as the reasonableness of rates is not determined by a fixed formula but is a fact question requiring the exercise of sound discretion by the Commission. It is often recognized that the ratemaking function involves the making of "pragmatic" adjustments and there is no single correct rate of return but that there is a "zone of reasonableness" within which the commission may exercise its judgment.

In re HELCO, 60 Haw. at 632-33 and 636, 594 P.2d at 618-20 (citations omitted) (emphasis added).

The Parties agree that a rate of return of 8.5 percent is fair and reasonable, based on the following capital structure and cost rates:

<u>Capital Component</u>	<u>Weight</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Note due to shareholder	50%	7.0%	3.5%
Common equity	<u>50%</u>	10.0%	<u>5.0%</u>
	100%		8.5%

See Stipulation, Attachment 5.

The Parties, in support of their position, explain:

In its Application, Applicant proposed to increase the current rates to provide the utility with an opportunity to earn an 8.85% return on rate base. In its Direct Testimonies, the Consumer Advocate noted that Applicant's proposed 8.85% . . . rate of return was incongruent with what one would consider to be a reasonable level of return in the test year, given the current economic conditions that are expected to prevail during the 2009 test year and very likely several years thereafter. The Consumer Advocate proposed to utilize a 44.17% equity/55.83% debt capital structure, which results in a return on common equity ranging from 9.0% to 10.0% and a cost of debt of 7%, resulting in an overall rate of return range from 7.88% to 8.33% (8.10% being the mid-point). The Consumer Advocate's specific cost

of capital (or return on rate base) recommendation for Applicant is the mid-point of 8.10%. The Consumer Advocate contended that its cost of capital recommendation provides Applicant with a sufficient level of earnings to maintain its financial integrity.

During settlement discussions, Applicant disagreed with the Consumer Advocate's analysis and methodology reflected in its Direct Testimonies and its specific cost of capital (or return on rate base) recommendation of 8.10%. Based on Applicant's independent analysis, it contended that a more appropriate capital structure would be a 55% equity/45% debt capital structure with the use of [a] 12% return on common equity and a cost of debt of 7%, which results in a rate of return higher than 9.5%. In lieu of expending additional resources and time litigating this issue, however, Applicant proposed to utilize a 50% equity/50% debt capital structure because it is a more reasonable capital structure for a water company and is the capital structure for the proxy groups used by the Consumer Advocate's witness, Mr. Parcell, as shown on Exhibit CA-202, Proxy Water Utilities Common Equity Ratios. In addition, Applicant stated that it could change its equity ratio by converting some of its long-term debt to equity during the Test Year to provide the 50/50 ratio. By using a 50% equity/50% debt capital structure at the high-end of the Consumer Advocate's return on equity range, Applicant proposed an 8.5% rate of return. See Attachment 5. Applicant contended that an 8.5% rate of return would be fair and reasonable level for Applicant to maintain its financial integrity. For settlement purposes only, the Consumer Advocate agreed to utilize a 50% equity/50% debt capital structure and the high-end of the Consumer Advocate's return on equity range resulting in an 8.5% rate of return, as proposed by Applicant. As a result, the Parties agreed to utilize an 8.5% rate of return for purposes of this proceeding only.

Stipulation, Section III.E, Rate of Return, at 52-54 (citations, footnote, and text therein omitted) (emphasis added).

Here, the stipulated rate of return is 0.35 percent less than KRWC's current authorized rate of return of 8.85 percent.<sup>56</sup> On balance, the commission finds that the stipulated rate of return is within the range of reasonableness recognized by the Court in In re HELCO. The commission approves as fair the Parties' stipulated rate of return of 8.5 percent.

F.

Rate Design

Based on their agreed-upon Test Year revenue requirement for KRWC, the Parties stipulate to the following rate design:

Monthly Meter Charges

<u>Size of Meter</u>	<u>Present Rate</u>	<u>Proposed Rate</u>	<u>% Change</u>
5/8"	\$16.00	\$20.00	25% increase
1"	\$46.00	\$57.00	23.9% increase
1-1/2"	\$88.00	\$110.00	25% increase
2"	\$120.00	\$150.00	25% increase
3"	\$240.00	\$300.00	25% increase

Monthly Water Consumption Charge

<u>Description</u>	<u>Present Rate</u>	<u>Proposed Rate</u>	<u>% Change</u>
Monthly Water Consumption Charge	\$5.635 per TG	\$7.03366 per TG	24.8% increase

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<sup>56</sup>Initially, as part of its Application, KRWC sought to maintain its current rate of return of 8.85, as authorized by the commission in the water utility's most recent rate case, Docket No. 05-0334. By contrast, the Consumer Advocate, based on the supporting written testimony of its expert cost of capital witness, recommended a rate of return ranging from 7.88 percent to 8.33 percent, with a mid-point of 8.10 percent. CA-T-2.

Monthly Water Consumption Charge

<u>Description</u>	<u>Present Rate</u>	<u>Proposed Rate</u>	<u>% Change</u>
Preferential Agricultural Potable Water Rate (for qualified Agricultural Activities only)	\$5.635 per TG*	\$2.6000 per TG	53.9% decrease

\*KRWC explains that: (1) while no Preferential Agricultural Potable Water Rate currently exists, customers that may qualify for this proposed Preferential Agricultural Potable Water Rate are currently being assessed the existing Monthly Water Consumption Charge of \$5.635 per TG that applies to all of KRWC's customers; thus (2) the proposed Preferential Agricultural Potable Water Rate will result in a reduction in the Monthly Water Consumption Charge for qualifying customers. Any qualifying customer will also be subject to any other applicable charges set forth in KRWC's tariff, including the Monthly Meter Charge, APCAC, Meter Installation Charge, and Hydrant Rental Charge.

Hydrant Rental Charge

	<u>Present Rate</u>	<u>Proposed Rate</u>	<u>% Change</u>
Per meter**	\$10.85/day	\$13.50/day	24.4% increase

\*\*All water utilized by the temporary hydrant rental shall be charged at the monthly consumption charge established for all customers.

Exhibit KRWC A, pages 13 and 14, sets forth the Parties' methodology and calculations in support of their stipulated rate design.<sup>57</sup> In essence, the Parties stipulate to an across-the-board increase in the monthly meter charge, monthly water consumption charge, and hydrant rental charge of between twenty-four to twenty-five percent, with the exception of the proposed Preferential Agricultural Potable Water Rate.

In proposing to establish the Preferential Agricultural Potable Water Rate, KRWC seeks to "recover[]" the change in

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<sup>57</sup>See also Stipulation, Exhibit KRWC A, at 2 (approximate 24.8 percent increase in KRWC's rates and charges).

revenue requirement from its other potable water customers as . . . provided in Act 169."<sup>58</sup> KRWC, in its Exhibit KRWC 11.4, lines 9 to 17, and Exhibit KRWC-T-100, at pages 31 to 33, explains the methodology it utilizes in calculating the proposed Preferential Agricultural Potable Water Rate.<sup>59</sup>

The Parties, as part of their Stipulation, agree to the methodology employed by KRWC in calculating the proposed Preferential Agricultural Potable Water Rate. Specifically, KRWC calculated its proposed Preferential Agricultural Potable Water Rate by utilizing the pro forma variable/marginal expenses for the Test Year and comparing such expenses to the total pro forma expenses for the Test Year. KRWC then applied the resulting percentage to its proposed water usage rate in calculating its proposed Preferential Agricultural Potable Water Rate. The Consumer Advocate, in its Direct Testimonies, noted that: (1) KRWC's development of its proposed Preferential Agricultural Potable Water Rate appeared reasonable when compared to the current agricultural rates of various county water utilities within the State; and (2) the proposed subsidy provided by the potable water rates charged to other customers of the water utility to the Preferential Agricultural Potable Water Rate to be in compliance with Act 169.<sup>60</sup>

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<sup>58</sup>Exhibit KRWC-T-100, at 6-7.

<sup>59</sup>See also Exhibit KRWC-T-100, at 23-26.

<sup>60</sup>CA-T-1, at 77.

For purposes of the Stipulation, the pro forma expenses referred to by KRWC consists of the following variable expenses at proposed rates:

<u>Description/Variable Expenses</u>	<u>Proposed Rates</u>
Purchased electricity	\$609,524
Chemicals and testing	\$7,000
Gas, fuel, other	<u>\$3,000</u>
Total - variable expenses	\$619,524

The Parties then: (1) divided the total amount of variable expenses at proposed rates by the total expenses at proposed rates of \$1,673,091; and (2) applied the resulting 37.03 percentage to the stipulated water usage rate of \$7.03558 per TG in deriving the Preferential Agricultural Potable Water Rate of \$2.60 per TG (rounded).<sup>61</sup>

The methodology and subsidized rate proposed by the Parties is designed to recover "some [of] the fixed charges through the monthly customer charge and the recovery of all of the appropriate electricity charges, either in the base rate per thousand gallons or the APCAC change from the base established in this proceeding as well as for chemicals and fuels."<sup>62</sup> Such a result, in the commission's view, is consistent with the underlying policy and intent of Act 169, which provides:

Agriculture in Hawaii depends on many factors, including access to water for irrigation purposes at affordable rates. Although many farmers are able to access lower agricultural water rates provided by the county water systems, other farmers who are unable to access the county water systems must rely on the more expensive

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<sup>61</sup>See Stipulation, Exhibit A, at 15, Calculation of Agricultural Rate.

<sup>62</sup>KRWC's response to CA-IR-42.a.

residential water rates provided by public utilities. Without affordable water rates, agriculture cannot be sustainable and competitive in Hawaii.

The legislature finds that it is in the public interest to promote the long-term viability of agriculture by establishing mechanisms that provide for preferential rates for potable water used for agricultural activities.

The purpose of [Act 169] is to establish a policy of providing preferential potable water rates for agricultural activities and to authorize the public utilities commission to establish preferential water rates for potable water used for agricultural activities.

Act 169, Section 1. The commission also notes that, consistent with the DOA's comments, the stipulated amount of \$2.60 per TG for the Preferential Agricultural Potable Water Rate is lower than the \$3.6952 per TG rate initially proposed by KRWC.

Upon review, the commission finds reasonable the Parties' stipulated rate design, which includes the Preferential Agricultural Potable Water Rate of \$2.60 per TG. Concomitantly, due to the adoption of the Preferential Agricultural Potable Water Rate, by which KRWC's ratepayers will in effect subsidize qualified agricultural operations within the water utility's service area, the commission finds it feasible for KRWC to complete a cost of service study as part of its next rate case proceeding.<sup>63</sup>

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<sup>63</sup>See KRWC's response to CA-IR-41.b (KRWC plans to file a future application for a general rate case to recover the costs for Well No. 3, and complete a cost of service study in connection with the installation of the new well).

G.

APCAC

As previously noted, the purpose of KRWC's APCAC is to automatically pass through to KRWC's ratepayers, changes in the cost of electricity purchased and utilized by KRWC in pumping water. The Parties stipulate to a revised APCAC rate of \$2.39557 per TG, as set forth in Exhibit KRWC A, page 6, to reflect the new APCAC base rate for the Test Year. The commission approves as reasonable the Parties' revised APCAC rate.

H.

Preferential Agricultural Potable Water Rate: Qualifying Criteria

The Parties, upon their review of DOA's comments, stipulate to establishing the following qualifying criteria for the Preferential Agricultural Potable Water Rate:

1. Agricultural Activities: The word "Agricultural Activities" shall mean uses of water by a Customer for a commercial agricultural, silvicultural, or aquacultural facility or pursuit conducted, in whole or in part, including the care and production of livestock and livestock products, poultry and poultry products, apiary products, and plant and animal production for nonfood uses; the planting, cultivating, harvesting, and processing of crops; and the farming or ranching of any plant or animal species in a controlled salt, brackish, or freshwater environment. "Agricultural Activities" does not include canneries, mills, markets or establishments engaged in the conversion, treatment or packaging of agricultural products or similar activities, or the incorporation of plants with commercial value into the domestic landscaping.

. . . . .

5. Criteria for Qualification of Preferential Agricultural Potable Water Rate. To qualify to obtain the Preferential Agricultural Potable Water Rate, a Customer must apply to the Company in a form prescribed by the Company requesting the Preferential Agricultural Potable Water Rate. This form will require, among other things, that the Customer sign and certify that the Customer's property located within the Company's authorized service area as set forth in Exhibit E is being or will be used and engaged in Agricultural Activities, as defined in Rule I. In addition, the Customer must also satisfy all of the following requirements:

- a. The Customer must provide the Company with a copy of the State of Hawaii, Department of Taxation Form G-45, General Excise/Use Tax Return, Form G-49, Annual Return & Reconciliation, sales receipts and/or other forms/verification as approved by the Company demonstrating to the Company's satisfaction that the Customer is or will be engaged in Agricultural Activities, as defined in Rule I, and that these activities are commercially viable. For purposes of this paragraph, "commercially viable" means, at the very minimum, that the total gross revenues derived from the uses of the water for Agricultural Activities at the property/meter in question are or can be reasonably demonstrated at full establishment of the Agricultural Activity to be at least \$10,000 per year, averaged over the latest three (3) years.
- b. The Customer must submit to the Company a written verification (including maps, drawings or plans) demonstrating to the Company's satisfaction that the Customer's commercial agricultural irrigation system is or will be used solely for Agricultural Activities, and is distinct and separate from the Customer's domestic/landscaping systems and uses. For purposes of this rule, "domestic/landscaping systems" mean systems used for activities other than for Agricultural Activities as defined in Rule I.

- c. The commercial agricultural irrigation system shall be separately metered.
- d. The Customer must demonstrate that a minimum of 50% of the total usable area of the lot or 1.5 acres, whichever is less, shall be used for Agricultural Activities. Usable area shall include areas that are less than 15% in grade and are not subject to any drainage easements.

See Stipulation, at 62-63; see also KRWC's letter, dated March 5, 2009 (KRWC's updated qualifying criteria, revised in response to the DOA's comments).

The first sentence of Section 1 incorporates the definition of "Agricultural Activities" set forth in Act 169. The second sentence of Section 1, meanwhile, sets forth specific exclusions proposed by KRWC and agreed-upon by the Consumer Advocate. KRWC, in proposing these exclusions, contends:

. . . . KRWC's proposed exclusion . . . is consistent with the exclusion of the Hawaii County Department of Water Supply and the Kauai County Department of Water Supply's tariff[s] for their agricultural water uses. These activities generally consume significant amounts of water. Accordingly, KRWC believes that given the potential for the use of large amounts of water, the high costs of producing water in this specific area, and the limited customer base over which to spread costs, it is appropriate to exclude these uses from the definition.

KRWC's letter, dated March 5, 2009, at 1-2; see also Stipulation, Section III.H.1.a, at 59-60; and the Consumer Advocate's letter, dated March 4, 2009, at 1-2 (concurring with KRWC's position).

Section 5, meanwhile: (1) establishes the procedures and requisite criteria for water utility customers that engage in agricultural activities to qualify for a subsidized preferential

agricultural potable water rate pursuant to Act 169, as agreed-upon by the Parties; and (2) incorporates revisions made by KRWC in response to certain of the DOA's comments. Specifically:

1. With respect to the \$10,000 annual income threshold, Section 5 recognizes commercial agricultural start-up ventures where the lack of an income stream during the inception of the commercial agricultural venture is likely; and

2. With respect to the fifty percent minimum threshold for the total usable area of an agricultural lot, Section 5 also includes a "1.5 acres, or whichever is less" alternative criteria to accommodate larger size agricultural lots that may not be able to meet the fifty percent minimum threshold, due to such lots being more susceptible to having "steeper slopes and poorer soils."<sup>64</sup>

The commission finds reasonable the qualifying criteria agreed-upon by the Parties. That said, KRWC, upon consultation with the Consumer Advocate, shall develop provisions: (1) for verifying that any qualified agricultural user that is assessed the Preferential Agricultural Potable Water Rate continues to meet the criteria set forth in Section 5; and (2) for any agricultural user that no longer qualifies for the subsidized Preferential Agricultural Potable Water Rate, to instead be assessed the base consumption rate that is charged to KRWC's base rate customers.

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<sup>64</sup>KRWC's letter, dated March 5, 2009, at 3.

I.

Non-Rate Tariff Revisions

In addition to the changes to KRWC's rate schedules (including KRWC's revised APCAC rate) and establishing the qualifying criteria for the Preferential Agricultural Potable Water Rate, the Parties stipulate to certain non-rate tariff revisions that are non-substantive in nature. These non-substantive changes are reflected in Exhibits KRWC D and KRWC E of the Stipulation. The commission approves as reasonable the Parties' agreed-upon tariff changes.

J.

Commission's Approval

The Parties' stipulated increase provides KRWC with a reasonable opportunity to earn its Test Year revenue requirement of \$1,939,715. 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, 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, or any of the methodologies used by the Parties in reaching their global settlement, may not be cited as precedent by any parties in any future commission proceeding.

### III.

#### Summary of Findings and Conclusions

The commission finds and concludes:

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

2. The use of an average Test Year rate base is reasonable; likewise, the Test Year average depreciated rate base of \$3,136,403 is reasonable.

3. The stipulated rate of return of 8.5 percent is fair.

4. KRWC is entitled to an increase in revenues of \$336,400, or approximately 20.98 percent over revenues at present rates, based on a total revenue requirement of \$1,939,715, and a rate of return of 8.5 percent.

5. The stipulated rate design is reasonable, including the: (A) implementation of the Preferential Agricultural Potable Water Rate; and (B) revised APCAC.

6. The stipulated additions and revisions to KRWC's tariff provisions are reasonable, including the qualifying criteria for "Agricultural Activities," which is consistent with Act 169. That said, KRWC, upon consultation with the Consumer Advocate, shall develop provisions: (1) for verifying that any qualified agricultural user that is assessed the Preferential Agricultural Potable Water Rate continues to meet the criteria set forth in Section 5; and (2) for any agricultural user that no longer qualifies for the subsidized Preferential

Agricultural Potable Water Rate, to be assessed the base consumption rate that is charged to KRWC's base rate customers.

7. For its next rate case proceeding, KRWC shall:  
(A) undertake and complete a cost of service study; and  
(B) comply with the audited financial statement requirement set forth in HAR § 6-61-75(b).<sup>65</sup>

#### IV.

##### Acceptance or Non-Acceptance

Consistent with HRS § 269-16(f)(3), within ten days from the date of this Proposed Decision and Order, each of the Parties shall notify the commission as to whether it:<sup>66</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." HRS § 269-16(f)(3).

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<sup>65</sup>See, e.g., In re Molokai Public Util., Inc., Docket No. 2009-0048, Order Denying Molokai Public Utilities, Inc.'s Request to Submit its Unaudited Financial Statements in Lieu of Audited Financial Statements, filed on April 2, 2009. The commission's decision to have KRWC comply with the audited financial statement requirement set forth in HAR § 6-61-75(b), as part of its next rate case proceeding, is in response to the comments submitted by KRWC's ratepayers in this proceeding, Docket No. 2008-0283. Moreover, the commission notes that with the adoption here of the Test Year revenue requirement set forth in this Proposed Decision and Order, KRWC, in its next rate case proceeding, may no longer be entitled to expedited ratemaking treatment under HRS § 269-16(f). In effect, by the 2012 or 2013 calendar test year period, KRWC may not qualify as a "small" utility with annual gross revenues of less than \$2 million.

<sup>66</sup>This deadline is consistent with the deadline to move for reconsideration of a commission decision or order. See HAR §§ 6-61-137 (ten-day deadline to file a motion for reconsideration); 6-61-21(e) (two days added to the prescribed period for service by mail); and 6-61-22 (computation of time).

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. Id. 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 parties to the proceeding may waive the contested case hearing." Id. The commission shall make every effort to complete its deliberations and issue its Decision and Order by August 12, 2009. Id.

The underlying purpose of HRS § 269-16(f) is to expedite the ratemaking process for public utilities with annual gross revenues of less than two million dollars. 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' Amended Stipulation, filed on April 28, 2009 is approved, consistent with the terms of this Proposed Decision and Order.

2. KRWC may increase its rates to produce a total annual revenue increase of \$336,400, or approximately 20.98 percent, as reflected in the attached schedules, representing an increase in KRWC's revenue requirement to \$1,939,715.

3. KRWC shall promptly file its revised tariff sheets and rate schedules for the commission's review and approval, consistent with the terms of this Proposed Decision and Order, with copies served upon the Consumer Advocate. KRWC, upon consultation with the Consumer Advocate, shall develop provisions: (A) for verifying that any qualified agricultural user that is assessed the Preferential Agricultural Potable Water Rate continues to meet the criteria set forth in Section 5; and (B) for any agricultural user that no longer qualifies for the subsidized Preferential Agricultural Potable Water Rate, to now be assessed the base consumption rate that is charged to KRWC's base rate customers. KRWC's revised tariff sheets, which shall include the verification and change in rate provisions developed in consultation with the Consumer Advocate, shall take effect upon the commission's approval of said filing.

4. Within ten days from 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 docket record.

5. The failure to comply with any of the requirements set forth in Ordering Paragraphs No. 3 or No. 4, above, may constitute cause to void this Proposed Decision and Order, and may result in further regulatory action as authorized by State law.

6. For its next rate case proceeding, KRWC shall:  
(A) undertake and complete a cost of service study; and  
(B) comply with the audited financial statement requirement set forth in HAR § 6-61-75(b).

DONE at Honolulu, Hawaii MAY 12 2009.

PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

By   
Carlito P. Caliboso, Chairman

By:   
John E. Cole, Commissioner

APPROVED AS TO FORM:

  
Michael Azama  
Commission Counsel

By:   
Leslie H. Kondo, Commissioner

2008-0283.sl

Docket No. 2008-0283  
Kohala Ranch Water Company  
Revenue Requirements & Rate of Return Summary  
Test Year Ending December 31, 2009

Description	Present Rates	Adjustments/ Additional Amount	Proposed Rates at 8.50%
<b><u>REVENUE</u></b>			
Monthly Meter charge	\$ 120,036	\$ 29,442	\$ 149,478
Usage	1,398,006	347,475	1,745,481
Agricultural Customers	13,584	732	14,316
Hydrant & Other Usage	13,767	3,423	17,190
APCAC	44,672	(44,672)	-
Installation	12,000		12,000
Finance Charge & Other	1,250		1,250
Total Operating Revenues	<u>1,603,315</u>	<u>336,400</u>	<u>1,939,715</u>
<b><u>OPERATING EXPENSE</u></b>			
Purchased Electricity	609,524		609,524
Water System Maintenance	277,988		277,988
Grounds Maintenance	30,000		30,000
Installation Expense	4,739		4,739
Repairs & Maintenance	8,783		8,783
Chemical & Testing	7,000		7,000
Gas, Fuel, Other	3,000		3,000
Administrative, Legal & Professional	140,400		140,400
Insurance	28,187		28,187
Regulatory Expense	36,750		36,750
G&A	20,000		20,000
Amortization of Deferred Extraordinary Expenses	39,366		39,366
Total O&M Expenses	<u>1,205,737</u>	<u>-</u>	<u>1,205,737</u>
<b><u>OTHER EXPENSE</u></b>			
Taxes, Other Than Income	102,372	21,479	123,851
Depreciation	204,649		204,649
Amortization	(24,785)		(24,785)
Income Taxes	31,974	131,664	163,638
Total Operating Expenses	<u>1,519,948</u>	<u>153,143</u>	<u>1,673,091</u>
Operating Income	<u>83,367</u>	<u>183,257</u>	<u>266,624</u>
Average Rate Base	<u>\$3,136,403</u>	<u>-</u>	<u>\$3,136,403</u>
Return on Rate Base	2.66%		<u>8.50%</u>
Target Rate of Return	<u>8.50%</u>		
Increase required in Rate of Return	<u>5.84%</u>		
Increase in Net Income	\$183,227		
GRCF	<u>1.836</u>		<u>8.50%</u>
Increase in Revenue Required	<u>\$336,404</u>	<u>20.9815%</u>	
Percent Increase			

Docket No. 2008-0283  
 Kohala Ranch Water Company  
 Taxes Other Than Income Taxes  
 Test Year Ending December 31, 2009

Description	Revenues at Present Rates	Revenues at Proposed Rates	Tax Rates	Taxes at Present Rates	Taxes at Proposed Rates
<b><u>Revenue Taxes</u></b>					
Public Company Service Tax (Pursuant to HRS Ch. 239)	\$1,603,315	\$1,939,715	5.885%	\$94,355	\$114,152
Public Utility Fee (Pursuant to HRS Ch. 269-30)	1,603,315	1,939,715	0.500%	8,017	9,699
Franchise Tax (applicable to electricity companies only) (Pursuant to HRS Ch. 240)			2.500%	-	-
<b>Total Revenue Taxes</b>				<b><u>\$102,372</u></b>	<b><u>\$ 123,851</u></b>
<b><u>Other Taxes</u></b>					
Other Taxes					
<b>Total Other Taxes</b>				<b><u>0</u></b>	<b><u>0</u></b>
<b>Total Taxes Other Than Income Taxes</b>				<b><u>\$102,372</u></b>	<b><u>\$123,851</u></b>

Docket 2008-0283  
Kohala Ranch Water Company  
Income Tax Expense  
Test Year Ending December 31, 2009

Description	At Present Rates	Proposed Revenue Increase	At Proposed Rates
Total Revenues	\$1,603,315	\$336,400	\$1,939,715
Total Operations & Maintenance Expenses	1,205,737		1,205,737
Depreciation	204,649		204,649
Amortization	(24,785)		(24,785)
Taxes Other than Income Taxes	102,372	21,479	123,851
Total Operating Expenses	<u>1,487,973</u>	<u>21,479</u>	<u>1,509,452</u>
Operating Income before Income Taxes	115,342	314,921	430,263
Interest Expenses			
<i>State Taxable Income</i>	<u>115,342</u>	<u>314,921</u>	<u>430,262</u>
<i>State Income Tax</i>			
	<b>Tax Rates</b>		
Less than \$25K	4.40%	1,100	1,100
Over \$25K, but less than \$100K	5.40%	4,050	4,050
Over \$100K	<u>6.40%</u>	982	21,137
Rounding			
<b>State Income Tax</b>		<u>6,132</u>	<u>26,287</u>
<i>Federal Taxable Income</i>	109,210	294,766	403,976
<i>Federal Income Tax</i>			
	<b>Tax Rates</b>		
Less than \$50K	15.00%	7,500	7,500
Over \$50K, but less than \$75K	25.00%	6,250	6,250
Over 75K, but less than \$100K	34.00%	8,500	8,500
Over \$100K, but less than \$335K	39.00%	3,592	88,058
Over \$335K	<u>34.00%</u>		23,451
Rounding			
<b>Federal Income Tax</b>		<u>25,842</u>	<u>137,352</u>
Total Federal and State Income Taxes	<u>\$31,974</u>	<u>\$131,664</u>	<u>\$163,638</u>
Effective Tax Rate	27.7209%	41.8089%	38.0323%
State	5.3163%	6.4000%	6.1095%
Federal	22.4047%	35.4089%	31.9228%

Docket No. 2008-0283  
 Kohala Ranch Water Company  
 Average Rate Base  
 Test Year Ending December 31, 2009

Description	At December 31, 2008	At December 31, 2009	Average
Plant in Service	\$8,469,053	\$8,806,553	\$8,637,803
Less: Accumulated Depreciation	(4,297,626)	(4,507,413)	(4,402,520)
<i>Net Plant-in Service</i>	<u>4,171,427</u>	<u>4,299,140</u>	<u>4,235,283</u>
Less: ( )			
Net Contribution in Aid of Construction	(174,707)	(149,923)	(162,315)
Customer Deposits	(22,000)	(22,000)	(22,000)
Accumulated Deferred Taxes	(1,025,170)	(1,004,918)	(1,015,044)
<i>Subtotal</i>	<u>(1,221,877)</u>	<u>(1,176,841)</u>	<u>(1,199,359)</u>
Add:			
Working Capital	100,478	100,478	100,478
<i>Subtotal</i>	<u>100,478</u>	<u>100,478</u>	<u>100,478</u>
<b>Total Rate Base</b>	<u>\$3,050,028</u>	<u>\$3,222,777</u>	
Average Rate Base at Proposed Rate:			<u>\$3,136,403</u>

Docket No. 2008-0283  
Kohala Ranch Water Company  
Working Cash  
Test Year Ending December 31, 2009

<u>Description</u>	<u>Amount</u>
Purchased Electricity	\$609,524
Water System Maintenance	277,988
Ground Maintenance	30,000
Installation Expense	4,739
Repairs & Maintenance	8,783
Chemicals & Testing	7,000
Gas, Fuel, Other	3,000
Administrative, Legal & Professional	140,400
Insurance	28,187
Regulatory Expenses	36,750
G&A	20,000
Amortization of Extraordinary Expenses	<u>39,366</u>
Subtotal	1,205,737
Working Cash Factor	<u>12</u>
Working Cash	<u><u>\$100,478</u></u>

CERTIFICATE OF SERVICE

The foregoing order was served on the date of filing by mail, postage prepaid, and properly addressed to the following parties:

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