

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)

NORTH SHORE WASTEWATER
TREATMENT, L.L.C.

DOCKET NO. 04-0298

For a Certificate of Public
Convenience and Necessity to
Provide Sewerage Treatment Service
for the Turtle Bay Resort Service
Territory at Kahuku, Oahu.

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DECISION AND ORDER NO. 21864

Filed June 14, 2005
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Karen Higashi
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ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

K. Higashi

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DECISION AND ORDER

The commission: (1) grants NORTH SHORE WASTEWATER TREATMENT, L.L.C. ("NSWT") a certificate of public convenience and necessity ("CPCN") to provide wastewater service within its proposed service area in Kahuku, island of Oahu; and (2) approves NSWT's initial tariff rates and rules.

I.

Background

NSWT seeks the issuance of a CPCN to provide wastewater service within its proposed service area in Kahuku, island of Oahu.¹ NSWT also requests the commission's approval of its proposed initial tariff rates and rules.² NSWT makes its

¹NSWT's Application for a CPCN, Exhibits "A" through "G", Verification, and Certificate of Service, filed on October 5, 2004 (collectively, the "Application").

²Id.

requests pursuant to Hawaii Revised Statutes ("HRS") § 269-7.5 and Hawaii Administrative Rules chapter 6-61.

NSWT served copies of its Application upon the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy ("Consumer Advocate") (collectively, NSWT and the Consumer Advocate are referred to as the "Parties"). On November 4, 2004, the commission published its Notice to Interested Persons in various newspapers, including an Oahu-based publication, advising interested persons of NSWT's Application.³

On January 14 and February 18, 2005, NSWT responded to the Consumer Advocate's information requests. On March 4, 2005, the Consumer Advocate filed its Statement of Position. On May 23, 2005, the Parties filed their "Stipulation of Settlement Agreement in Lieu of Further Discovery and [NSWT's] Reply Statement of Position," and on May 24, 2005, they filed supporting workpapers and schedules (collectively, the "Stipulation").

II.

North Shore Wastewater Treatment, L.L.C.

A.

Predecessor and Ownership Interests

NSWT is a newly formed Delaware limited liability company authorized to do business in the State of Hawaii

³See the commission's letter, dated November 5, 2004, with enclosures.

("Hawaii" or the "State"). NSW'T's sole member is Turtle Bay Holding, L.L.C., a Delaware limited liability company. Turtle Bay Holding, L.L.C., is also the ninety-nine (99) per cent general partner of Kuilima Resort Company ("KRC"), a Hawaii general partnership.⁴

KRC is the current owner of the Hotel at Turtle Bay Resort, the Turtle Bay Resort Golf Club, and certain surrounding properties on the North Shore of Oahu.⁵ KRC also owns all of the land within the proposed service area, and is the current provider of wastewater service to the developed areas.

B.

Service Territory

NSWT seeks the commission's approval to provide wastewater service to the Hotel at Turtle Bay Resort, the Turtle Bay Golf Club, the Kuilima East and Kuilima West condominiums, the proposed Ocean Villas condominium project presently under construction, and approximately three hundred (300) acres of resort zoned lands that are planned for development within the next ten (10) years. A map of NSW'T's proposed service territory is attached as Exhibit A to its Application.

⁴The holder of the remaining one (1) per cent interest in KRC is not identified in NSW'T's Application.

⁵The Hotel at Turtle Bay Resort was formerly known as: (1) Del Webb's Kuilima Hotel; (2) Hyatt Kuilima; and (3) the Turtle Bay Hilton and Country Club.

The City and County of Honolulu ("City"), Board of Water Supply, provides the water service to the users situated within NSWT's proposed service territory.

C.

Initial Wastewater Treatment Plant

A wastewater treatment plant was constructed in the early 1970's ("initial plant") to serve the improvements for the then master-planned Kuilima Resort, which commenced operations in 1972. The Kuilima Hotel, a golf course, and club house opened soon thereafter. In addition, the nearby Kuilima East and Kuilima West condominium projects were completed around 1972 by a separate developer, unrelated to the original developer of the Kuilima Resort. Both condominiums were served by the initial plant.

In 1988, Kuilima Development Company, the then owner and developer of the Kuilima Resort, deeded the Turtle Bay improvements and properties to KRC. KRC then: (1) updated the master plan for developing the resort; and (2) obtained approval to construct up to five (5) hotels (comprised of up to 2,000 rooms) and 2,000 resort condominiums.

In conjunction with the future developments, KRC constructed a new treatment plant at a cost in excess of ten (10) million dollars, circa 1991 (the "treatment plant" or "1991 treatment plant"). When the treatment plant was placed into service, KRC retired and removed from service the initial plant.

Following the issuance of a CPCN to NSWT, KRC will convey title of the treatment plant to NSWT, and KRC will cease to provide wastewater service.⁶

D.

Wastewater Treatment Plant

NSWT intends to own the treatment plant, which is located at 57-091 Kamehameha Highway, across from the Hotel at Turtle Bay Resort. All sewage generated within the proposed service area will be collected and processed at the treatment plant.

⁶NSWT represents that: (1) although KRC did not own or develop the Kuilima East and Kuilima West condominiums, KRC still owns the fee interest of the underlying lands; (2) KRC continued the practice of its predecessor by providing sewage service, landscape maintenance, and select common area maintenance services to both condominiums for a monthly lump sum payment from the respective condominium associations as part of the monthly land lease charge; and (3) because KRC and its predecessor owned the fee simple interest of the land underlying the respective condominium projects, KRC was not aware of any requirement to obtain a commission-issued CPCN.

The Consumer Advocate, in response, states:

While there is merit to the assessment that KRC and its predecessor was not required to obtain a CPCN for wastewater treatment service provided to the Kuilima Resort, the Consumer Advocate does not agree that a CPCN was not required for the service provided to the Kuilima Condos. The reason is KRC or its predecessor did not own the Kuilima Condos. Thus service was being provided to the general public requiring a CPCN.

Consumer Advocate's position statement, at 3, footnote 5.

The commission, in this Decision and Order, takes no position on NSWT's rationale that KRC was not required to obtain a CPCN. According to NSWT, negotiations are on-going to sell the fee simple interest to the owners of the condominium units in both the Kuilima East and Kuilima West projects. See Parties' Stipulation, at 7, footnote 6.

The treatment plant utilizes an aerated lagoon system to achieve secondary ("R-2") wastewater treatment. The effluent generated from the treatment plant current meets the secondary effluent requirements of the State Department of Health ("DOH") and is disposed of in an injection well or is utilized as irrigation water for one of the nearby golf courses where an R-2 rating is acceptable.

NSWT initially anticipated upgrading the treatment plant to achieve R-1 treated effluent by December 31, 2005, to comply with the State DOH standards for that rating. Now, however, NSWT anticipates a "delay in the project [until 2006] to upgrade the effluent quality from R-2 to R-1."⁷

NSWT states that the upgrade to R-1 is necessary, as the current R-2 effluent is restricted in its disposal method:

R-2 rated effluent cannot be used to irrigate golf courses or other areas which are within 200 feet of any occupied facilities. As the number of customers and the related effluent flow increases, the effluent quality will have to be improved to a rating of R-1 to permit its safe and efficient disposal. This capital expenditure will be made by NSW[T] but, . . . will be included as an offset to the charge to NSW[T] from KRC for the disposal of effluent.⁸

"The use of the second golf course will be necessary as the customers in the service territory increase and the effluent

⁷NSWT's response to CA-SIR-2. See also Parties' Stipulation, at 6 and 13.

⁸Exhibit D, at 7 - 8, of NSWT's Application. See also Parties' Stipulation, at 6. "Upgrading to R-1 quality effluent will [also] allow the effluent to be utilized for irrigation purposes in closer proximity to proposed development areas, which is consistent with the policies of the [State] DOH and other governmental agencies in reducing the amount of potable water utilized for irrigation purposes." Id. at 6, footnote 4.

requires additional area for disposal beyond the first golf course that is currently being used for the existing customer level."⁹

A detailed description of the treatment plant is attached as Exhibit E to NSWT's Application. NSWT notes that the pipelines, pumps, injection well, and other facilities used in connection with the effluent disposal from the treatment plant are owned by KRC and are not part of the treatment plant ("effluent disposal facilities"). KRC will continue to own the effluent disposal facilities, reasoning that its retention of these facilities is in NSWT's and KRC's best interests.¹⁰

The design maximum wastewater flow the treatment plant is currently capable of processing is 3.34 million gallons per day ("gpd"), with a peak wastewater flow of 4.24 million gpd.

NSWT explains that:

1. The treatment plant's capacity at full build out of the proposed service area is 4,000 units, 2,000 for hotel rooms and 2,000 for residential condominiums. "It is anticipated that the capacity of some plant will have to be increased and some plant will have to be upgraded as the wastewater flows

⁹NSWT's response to CA-IR-21(a).

¹⁰Specifically, NSWT "will not have to increase its charges to its customers for the full amount of the costs for the disposal of effluent and will not have the ongoing responsibility for the maintenance and replacement of the effluent disposal facilities. KRC will not have to pay for the effluent used to irrigate its golf courses and will recover a portion of the cost from [NSWT], once the process is approved in a general rate case for [NSWT]." NSWT's response to CA-IR-23(d).

related to that additional usage will need to be transported and treated by NSW[T]."¹¹

2. KRC is currently providing or will be providing service to 1,132 equivalent units. Thus, the treatment plant "is [presently] operating at approximately 28% of plant capacity, with only about 28% of units permitted to be constructed under the revised master plan actually built to date."¹²

E.

Treatment Plant Operator

NSWT states that: (1) Aqua Engineers, Inc. ("Aqua"), a Kauai-based firm and the current operator of the treatment plant since June 2004, will continue to operate and maintain the treatment plant, pursuant to an Operating Agreement;¹³ (2) Aqua presently operates and maintains twenty-four (24) wastewater treatment plants throughout the State; and (3) because NSWT does not have its own employees, NSWT will enter into separate agreements for administrative support, accounting, and billing services with KRC.

¹¹Exhibit D, at 7, of NSWT's Application.

¹²NSWT's Application, at 6.

¹³Prior to June 2004, KRC personnel operated and maintained the treatment plant. NSWT represents that "KRC is not in the wastewater treatment business and did not wish to continue with those responsibilities for a separate company once [NSWT] receives its CPCN approval." NSWT's response to CA-IR-8(a)(2).

F.

Monthly Land Lease Charge

KRC presently charges the Kuilima East and Kuilima West condominiums a monthly land lease amount that covers the lease of the land, collection and treatment of wastewater, landscape maintenance, and maintenance of the common areas. The current monthly land lease charge ranges from \$40 to \$66 per unit, depending on the size of the unit. KRC intends to eliminate from the monthly land lease charge the portion that is related to wastewater collection and treatment, once NSWTT initiates wastewater service.

G.

Proposed Initial Wastewater Rates

Following the commission's issuance of a CPCN, KRC will: (1) transfer ownership of the treatment plant to NSWTT; and (2) retain ownership of the effluent disposal facilities. The collection and transmission mains, representing remaining plant from the 1972 time frame, will be transferred to NSWTT at no cost. The lift station, force main, and treatment plant will be transferred to NSWTT at the original cost, less accumulated depreciation "through December 31, 2004[,] which is the assumed date for the approval of the Application and the commencement of operations of [NSWTT]." ¹⁴

NSWTT utilizes a 2005 calendar test year and ten (10) per cent rate of return in calculating its proposed

¹⁴Exhibit D, at 4, of NSWTT's Application.

initial wastewater rates ("Initial Rates"). Its ten (10) supporting schedules are attached as Exhibits C-1 through C-10 to its Application, as amended by its response to CA-SIR-2.

NSWT states that its rate structure takes into consideration the different size and types of units generating wastewater within its proposed service territory. Specifically, its rate structure consists of: (A) three (3) different customer classes (condominium, hotel, and commercial); (B) with each type of unit or use within each class assigned a specified number of equivalent units ("EU" or "EUs")); and (C) the monthly wastewater charge derived by multiplying the applicable number of EUs by a rate of \$48.66 per EU.¹⁵ There is no separate charge based on customers' water usage.

H.

Rate Base Treatment

NSWT represents that because nearly all of the initial plant's improvements are retired and removed from service, fully depreciated, or were contributed plant, none of these improvements are included in NSWT's proposed rate base. Thus, in calculating its Initial Rates, NSWT has only included the costs of the new treatment plant constructed in 1991, reduced by the amount of accrued depreciation.

¹⁵Exhibit B of the Application consists of NSWT's proposed tariff, which includes NSWT's Initial Rates and rules governing its wastewater service. Proposed tariff sheet number 23 sets forth NSWT's rate structure. See Exhibit B at 23.

Presently, the treatment plant "is operating at approximately 28% of plant capacity, with only about 28% of units permitted to be constructed under the revised master plan actually built to date."¹⁶ NSW's Initial Rates, therefore, "are based on a rate base of 30% of the net plant in service."¹⁷ NSW projects that the full build-out of the properties located in its proposed service territory will occur within the next ten (10) years, when it anticipates that the treatment plant will be operating at close to one hundred (100) per cent of its capacity.

III.

Issues

Pursuant to HRS § 269-7.5, the issues in this proceeding are:¹⁸

1. Whether NSW is fit, willing, and able to properly perform the wastewater service proposed and to conform to the terms, conditions, rules, and regulations adopted by the commission.
2. Whether the proposed wastewater service is or will be required by the present or future public convenience and necessity.
3. Whether the proposed rates, charges, rules, and regulations for the wastewater service are just and reasonable.

¹⁶NSW's Application, at 6.

¹⁷Id.

¹⁸See also Section I, Statement of the Issues, in Stipulated Procedural Order No. 21475, filed on November 24, 2004.

IV.

Parties' Stipulation

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

1. The Stipulation, binding between them, "represent[s] compromises by the Parties to fully finalize and 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 any matter stipulated to herein."¹⁹
2. The Parties: (A) 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; and (B) agree that nothing contained in the Stipulation "shall be deemed to, nor be interpreted to, set any type of precedent, or to be used as evidence of either Parties' position in any future regulatory proceeding, except as necessary to enforce this Stipulation."²⁰
3. Each provision of the Stipulation is in consideration and support of all other provisions, and is expressly conditioned upon the commission's acceptance of the Stipulation in its 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 this Stipulation, the Parties reserve the right to pursue any and all of their respective positions through further negotiations and/or additional filings and proceedings before the Commission."²¹
4. The filings in this docket, including the Stipulation, constitute the record, and "the Commission may take such steps and actions it deems necessary and appropriate to facilitate its

¹⁹Parties' Stipulation, at 4.

²⁰Id.

²¹Id. at 22.

review of this Stipulation, and to determine whether this Stipulation should be approved."²²

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.

This docket involves the setting of NSWT's Initial Rates, as part of its Application for a CPCN. 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 the justness and reasonableness of the Parties' Stipulation.

V.

Certificate of Public Convenience and Necessity

NSWT's Application is supported in part by the written testimony of its expert witness.²³

NSWT asserts that: (1) its meets the applicable requirements governing the issuance of a CPCN under HRS § 269-7.5(b); (2) there are no other public utilities that are able or capable of providing wastewater service within NSWT's proposed service territory; and (3) wastewater service from the

²²Id.

²³Exhibit D of NSWT's Application.

City is "not available in the area to service the Turtle Bay Resort and surrounding properties."²⁴

NSWT explains that KRC is currently negotiating with the owners of the Kuilima East and Kuilima West condominiums on the potential sale of "the fee simple land related to the condominium units."²⁵ In addition, KRC is considering selling certain parcels of land within the proposed service territory for development. For these reasons, KRC believes it is necessary to establish a separate regulated entity to provide wastewater service.

A.

Consumer Advocate's Position

The Consumer Advocate, in its analysis under HRS § 269-7.5(b), finds that:

Financial Fitness

1. NSWT has no authorized stock, outstanding bonds, or notes, it has not paid any dividends, there are no security agreements, mortgages, deeds, or trusts which affect NSWT's property, and as a recently organized LLC, "there are no audited or unaudited financial statements available to determine the financial strength based on [NSWT's] operations of the proposed service."²⁶

²⁴NSWT's Application, at 4.

²⁵Exhibit D at 3, of NSWT's Application.

²⁶Consumer Advocate's position statement, at 6.

2. KRC and its predecessor have provided wastewater treatment service in the proposed service area since 1972. Thus, there is an established customer base from which NSWST will generate revenues to cover the costs of providing the utility service. In addition, the anticipated future development should expand NSWST's customer base, further increasing NSWST's ability to generate revenues.

3. "Increasing the revenues should enhance NSWST's ability to recover its operating costs as the costs of operating a wastewater treatment facility are largely fixed. Finally, should the initial proposed rates be insufficient to generate revenues that allow a reasonable opportunity to recover reasonable costs of operation, NSWST can seek Commission approval to increase the rates charged for the wastewater service. All of the above [i.e., paragraphs 1 and 2 are] expected to contribute to [NSWT's] financial ability to sustain [its] operations in the future."²⁷

Technical Fitness

4. Aqua is and will continue to operate and maintain the treatment plant on a daily basis. Given Aqua's track record of operating other public utility systems in the State, NSWST, through Aqua, has the technical expertise needed to operate the

²⁷Id. at 6 - 7 (footnote omitted). The Consumer Advocate, in said footnote, notes that while it offers no opinion on the financial fitness of NSWST's parent entity, NSWST's parent has pledged to provide financial support to NSWST, if necessary. In this regard, NSWST states that it "will have the resources of its member, Turtle Bay Holding, L.L.C. to rely on in the event of future operating losses." NSWST's response to CA-IR-1.

treatment plant within the prescribed requirements of the commission and State DOH.

Willingness to Provide the
Proposed Wastewater Service

5. The filing of NSWTT's Application represents its willingness to provide the proposed wastewater service.

Ability to Properly Provide
the Proposed Wastewater Service

6. It appears that the treatment plant has sufficient capacity to serve its existing customers and the projected additional customers in the near future. Nonetheless, the Consumer Advocate expresses concern that NSWTT's ability to service its customers may be impacted, as it will not own the effluent disposal facilities.

7. Concomitantly, the Consumer Advocate "does not believe that its concern affects [NSWTT's] ability to provide wastewater service at this time. This conclusion is based on the purported agreement between KRC and [NSWTT] containing reasonable terms."²⁸ Thus, the Consumer Advocate recommends that NSWTT file a copy of the contract between NSWTT and KRC for the effluent disposal (the "effluent disposal contract").

Need for the Proposed Wastewater Service

8. KRC concludes that it must establish a separate utility in order to continue the provision of wastewater service. In addition: (A) municipal wastewater service is not available from the City for the proposed service area; and (B) there are no competing public utilities for NSWTT's proposed wastewater

²⁸Consumer Advocate's position statement, at 11.

service. Thus, NSWTT has demonstrated a need for the proposed wastewater service.

B.

Parties' Stipulation

Based on the Consumer Advocate's analysis, the Parties agree that NSWTT meets the applicable requirements for a CPCN under HRS § 269-7.5(b). In addition, NSWTT agrees to file a copy of the effluent disposal contract with the commission and Consumer Advocate as soon as the contract is completed.

C.

Commission's Finding

The commission finds that, pursuant to HRS § 269-7.5(b): (1) NSWTT is fit, willing, and able to properly provide wastewater service within its proposed service area; and (2) the utility service is required by the present and future public convenience and necessity. The commission, thus, approves the issuance of a CPCN to NSWTT.

VI.

NSWTT's Revenue Requirement

The Parties' stipulated workpapers and schedules, filed on May 24, 2005, are attached to this Decision and Order.

NSWTT's Initial Rates and charges are calculated based on NSWTT's test year revenue requirement. In so doing, the Parties stipulate to the following estimates for expenses, rate

base, rate of return, then revenues, for the test year (Parties' Schedules 1 to 10):

Operating Expenses (Schedules 1, 2, and 4)

Operating Contract - Aqua	\$251,500
Chemicals	\$7,000
Electricity	\$51,000
Water	\$7,000
Materials and Supplies	\$5,000
Customer Billing and Collection	\$6,000
Accounting Services	\$24,000
Kuilima Resort Administrative	\$18,000
Communications	\$1,200
Travel	\$600
Office Supplies	\$600
Legal and Regulatory	<u>\$4,400</u>

Total Operating Expenses \$376,300

Depreciation Expense \$117,134
(Schedules 1, 2, and 10)

Taxes Other Than Income \$41,485
(Schedules 1 and 2)

Operating Income \$114,804

Income Taxes \$27,942
(Schedules 2 and 5)

Net Operating Income \$86,862

Average Rate Base \$981,230
(excluding excess capacity)
(Schedules 1 and 7 through 10)

Rate of Return 8.85%
Revenues (Schedules 1, 2, and 3)

Condominium	\$328,305
Hotel	\$258,282
Commercial	<u>\$63,136</u>

Total Revenues \$649,723 (rounded)

The Consumer Advocate finds that NSWT's "proposed level of operating expenses generally falls within a reasonable range that might be expected from similarly situated utility companies[.]"²⁹ Thus, for the purpose of establishing NSWT's Initial Rates, the Consumer Advocate does not object to NSWT's proposed operating expenses, except for the injection well testing expense.³⁰ Moreover, the Consumer Advocate expects NSWT to maintain the appropriate data to support the expense estimates NSWT presents in future rate case requests.

The Parties' test year rate base sum: (1) removes \$500,000 related to the R-1 effluent upgrade, since this project is now deferred until sometime after the 2005 test year; (2) excludes the costs associated with the initial plant KRC retired in *circa* 1991; (3) includes the cost of the 1991 treatment plant and associated depreciation expense;³¹ and (4) is based on a plant utilization factor of thirty (30) per cent,

²⁹Parties' Stipulation, at 12.

³⁰Based on the Consumer Advocate's objection, NSWT has removed the cost of the injection well testing, \$10,000, from the Parties' stipulated expense for Operating Contract - Aqua. With this removal, the Parties stipulate to \$251,500 as the expense amount for Operating Contract - Aqua.

³¹The Consumer Advocate, in agreeing to include the cost of the 1991 treatment plant and associated depreciation expense, notes that NSWT is not aware of any prior write-off of the 1991 treatment plant's costs for income tax purposes by KRC, or of any attempt to KRC to recover the costs of the 1991 treatment plant. Parties' Stipulation, at 18 (citing to NSWT's responses to CA-IR-20(c) and CA-SIR-14).

because approximately 28.3 per cent of NSWT's plant capacity is currently in use to provide wastewater service.³²

In addition, NSWT: (1) agrees to rescind its proposal to collect from new applicants a contribution-in-aid-of-construction ("CIAC") and advance-in-aid-of-construction ("AIAC") equivalent to the cost of its treatment plant's unused capacity, or approximately \$1,000 per EU; and thus; (2) "agree[s] to remove the CIAC and AIAC from the rate base calculation and the cost of the unused capacity will be removed as a proportion of the plant utilization."³³

³²NSWT calculated its plant utilization factor by dividing the current units served, measured in EUs (1,132), by the total unit capacity of the treatment plant, which NSWT estimates is 4,000 units.

The Consumer Advocate expresses its concern "over whether the 4,000 units of capacity refers to the number of actual units to be developed or the number of estimated EUs at full build-out. If it is the latter, then the Consumer Advocate has no concerns. However, if it is the former, then the Consumer Advocate contends that the number of EUs at full build-out will be higher than 4,000, which results in a lower plant utilization factor since the denominator of the ratio increases." Parties' Stipulation, at 18 - 19.

"In any case, because [NSWT will] obtain water use information and install wastewater flow meters, the Consumer Advocate will have more water utilization and wastewater flow information at the time [NSWT] comes in for its first rate case to assess the reasonableness of the 30% plant utilization factor and propose an adjustment to the factor, if necessary. Therefore, the matter of the total and used plant capacity will be addressed at that time." Id. at 19.

³³Id. The Parties also agree to defer until NSWT's next rate the Consumer Advocate's concern with NSWT's decision not to apply for the Hawaii Capital Goods Excise Tax Credit following the construction of the initial plant in circa 1991. See id. at 20.

In essence, the stipulated rate base only includes the used and useful portion of the costs of the 1991 treatment plant, reduced by the amount of accrued depreciation necessary to serve the existing "customer" base.³⁴

NSWT initially sought a ten (10) per cent rate of return. The Consumer Advocate countered that an 8.85 per cent rate of return is consistent with two (2) recent rate cases involving wastewater and water utilities, respectively.³⁵ While NSWT continues to believe that a ten (10) per cent rate of return is justified, NSWT "agree[s] to the 8.85% rate of return on its rate base in calculating its revenue requirements for purposes of establishing its [I]nitial [R]ates."³⁶

Based on NSWT's normalized level of test year expenses (including taxes), its average test year rate base, and the stipulated 8.85 per cent rate of return, NSWT's estimated revenue requirement, as agreed-upon by the Parties, is approximately \$649,723 (rounded) (Schedules 1, 2, and 3).

The commission has thoroughly reviewed the Parties' stipulated workpapers and schedules, recognizing that the Parties' Stipulation results from "give and take" on both sides. The Parties note that "considerable time and expense [is] saved and the Commission's review of this proceeding could be expedited

³⁴See id. at 16.

³⁵Decision and Order No. 20966, filed on May 6, 2004, in Docket No. 03-0025, *In re Hawaii-American Water Co., Inc.* (wastewater utility, 8.85 per cent); and Decision and Order No. 21644, filed on February 11, 2005, in Docket No. 03-0275, *In re Hawaii Water Serv. Co., Inc.* (water utility, 8.7 per cent).

³⁶Parties' Stipulation, at 21.

if a settlement [is] reached."³⁷ As a whole, the commission finds that: (1) the Parties' agreed-upon test year estimates for operating revenues, rate base, and revenues are reasonable; and (2) the stipulated 8.85 per cent rate of return is fair.

VII.

NSWT's Initial Rates and Charges

The Parties' stipulated rate structure is consistent with the rate structure initially proposed by NSW. See Section II(G), above. Specifically, the stipulated rate structure consists of three (3) different customer classes (condominium, hotel, and commercial), with each type of unit or use within each class assigned a specified number of EUs. There is no separate charge based on customers' water usage, since "there are presently no separate water meters for many of the commercial establishments or the other properties served by [NSWT]."³⁸

³⁷Id. at 3.

³⁸Id. at 10. For example: (A) the Hotel at Turtle Bay Resort is served by only three (3) meters, one (1) of which is dedicated to the fire safety system; and (B) the Kuilima East and Kuilima West condominiums are served by a total of one (1) meter for each project.

The Parties agree to the following EUs for each unit type or use:³⁹

<u>Condominium Unit Type</u>	<u>Number of EUs</u>
Studio/1BR & 1 bath	1
1 BR & 2 baths	1.5
2 BR & 2 baths	1.5
3 BR & 2 baths	2
4 BR & 2 baths	2

<u>Hotel Unit Type</u>	<u>Number of EUs</u>
Hotel Room	1
Junior Suite	1
Suite	1.5
Cottage (Bungalow)	1.5

<u>Commercial Use</u>	<u>Number of EUs</u>
Restaurant - Palm Terrace	20
Restaurant - 21 Degrees	20
Restaurant - Banquet Service	20
Restaurant - Lei Leis	20
Bar - Pool	10
Bar - Bay Club	10
Snack Bar (at beach)	5
Golf Course Locker Room	5

NSWT explains that: (1) it designated the number of EUs for each unit type or use based on its estimates of the expected wastewater that could reasonably be anticipated to be generated from such establishment (i.e., professional judgment); and (2) it "established a weighted factor to take these differences into consideration and then divided its revenue requirement by the total number of EUs currently being served."⁴⁰

³⁹See id. at 9. See also Exhibit B, Sheet 23, of NSWT's Application.

⁴⁰Parties' Stipulation, at 9.

The Consumer Advocate initially expressed certain concerns with NSW's proposed use of EUs. As part of the Stipulation, however, the Consumer Advocate does not object to NSW's use of EUs for designating its Initial Rates, premised on NSW's agreement to: (1) conduct studies of the actual quantity and quality of the wastewater flows for the commercial customers; (2) install influent meters at the facility; and (3) investigate the possibility of obtaining better water consumption data. These measures, the Consumer Advocate concludes, will provide NSW and "other parties" with additional data to evaluate alternative rate designs for NSW's future rate cases.

NSW's estimated revenue requirement, as agreed-upon by the Parties, is \$649,691 (rounded) (Schedules 1, 2, and 3). Based on the estimated total number of 1,132 EUs, the annual charge per EU is \$573.93 (Schedules 1 and 3). Accordingly, the Parties stipulate to a monthly charge of \$47.83 per EU (Schedules 1 and 3).

It is evident that reliable wastewater effluent and water flow data for the proposed service territory is lacking in the docket record. Largely for this reason, NSW, with the Consumer Advocate's ultimate concurrence, proposes its use of EUs in setting NSW's initial wastewater rates. At the same time, NSW pledges to take certain action in obtaining more accurate wastewater effluent and water consumption data for the purpose of evaluating alternative rate designs for future inception and use.

For purposes of establishing NSW's Initial Rates, the commission accepts the Parties' stipulated rate structure and

monthly charge of \$47.83 per EU.⁴¹ Nonetheless, NSWT is encouraged to evaluate and consider a different rate design or methodology in its next rate case or request for rate restructuring.

VIII.

Tariff Rules

NSWT's proposed tariff rules are attached as Exhibit B to its Application. NSWT, in response to the Consumer Advocate's comments, agrees to the following changes to NSWT's proposed tariff rules:⁴²

- Revise Rule I, Definitions, by including definitions for "Contribution in aid of construction (CIAC)" and "Notice of Discontinuance," as follows:

"Contribution in aid of construction (CIAC)" shall mean the fee charged the applicant or consumer by the Company to install or pay for existing, new, or expanded collection and/or treatment plant facilities required to service an applicant or consumer receiving service or substantially increasing sewage outflow volume from new or substantially modified premises and Developments.

"Notice of Discontinuance" shall mean written notice to the Company by a Customer that the customer wishes to discontinue service. Notice is effective the date correspondence is stamped as received by the Company.

⁴¹The stipulated rate structure is similar to the rate design of at least one (1) other wastewater utility regulated by the commission: Mauna Lani STP, Inc.

⁴²The Parties' agreed-upon: (1) deletions are bracketed; and (2) additions are underscored, unless noted otherwise.

- Revise Rule II, General Conditions, to read as follows:

1. The Company shall provide sewer service only in the area shown on the map attached hereto as Exhibit A. Any prospective Customer whose premises are [within the service limits established by the Company] located within said area may upon compliance with these Rules and Regulations obtain sewer service from the Company.

2. The amounts to be paid for sewer service shall be in accordance with the rates of file with the Public Utilities Commission of the State of Hawaii[.] (PUC herein). The Company will be applying to the PUC for sewer service rate increases from time to time to cover a) operating and other expenses, b) future capital and plant improvements, c) other reasonable and appropriate items as authorized by the PUC, and d) improvements required for compliance with applicable county, state, federal and agency environmental and other laws and regulations. Total costs of initial and future capital and plant improvements are not and have not been included in each developer's or owner's purchase price of respective developments or condominiums. The existing rates and tariffs for the Company are attached hereto as Original Sheet 23.

.

5. An applicant for sewer service [shall] will be required to establish or reestablish credit [and make a deposit to the Company] in accordance with these Rules and Regulations. A deposit may be required in connection with sewer service, in accordance with Section IV of these Rules and Regulations.

- Revise Rule IV, Paragraph 4, Interest on Deposits, to read as follows:

4. **Interest on Deposits.** Simple interest at the rate of [one percent (1%)] two percent (2%) per annum shall be paid by the Company on standard Customer deposits

- Revise Rule VII, Payment of Bills, to read as follows:

.

2. **Late Payment and Other Charges.**
If a Customer fails to pay the charges payable hereunder on or before the due date and the Company is required to undertake additional measures to pursue collection of the overdue sums, in addition to the remedies available hereunder, the Customer shall reimburse the Company for the reasonable costs (i.e., court costs and attorney's fees) incurred by the Company in connection with such collection measures.

3. **Discontinuance by the Company.** If undisputed charges for services are not paid within thirty (30) days after deposit

4. Any dispute regarding the charges appearing on the bill must be received by the Company in writing no later than fifteen (15) days following the Company's deposit of the bill in the United States mail or presentation to the Customer. The Company shall furnish a written response within fifteen (15) days of its receipt of the written dispute. The Customer may pay the disputed bill under protest within the time required by this rule to avoid discontinuation of service, in which event the dispute may be submitted to the PUC for final determination.

- Revise Rule VIII, Unacceptable Wastes, to read as follows:

.

2. No person shall discharge or cause to be discharged any of the following described waters or wastes to any sewers of the Company:

.

(e) Any other water or wastewater substance, of whatever nature or form, disposal of which is prohibited by applicable federal, state,

county or agency environmental or other law,
rule or regulation.

.

4.

If the Company permits the pretreatment or equalization of waste flows, the design and installation of the plants and equipment that provides the pretreatment shall be subject to the review and approval of the Company, and subject to the requirements of all applicable federal, state and county codes, ordinances, and laws.

- Revise Rule IX, Paragraph 2, Interruption of Service, to include the following new sentence at the end of Paragraph 2:

Except in the case of emergency repairs, the Company shall use its best efforts to give the Customer at least 24 hours notice before shutting off service.

- Add a new Rule to read as follows:

The Customer shall be liable for any damage to equipment or property of the Company wherever located, caused by the Customer or the Customer's tenants, agents, employees, contractors, licensees, or permittees, and the Company shall be promptly reimbursed by the Customer for any such damage upon presentation of a bill therefor. Any damage to Company facilities shall be reported as soon as possible.

The commission finds reasonable NSW's agreed-upon revisions to NSW's proposed tariff rules.

IX.

Orders

THE COMMISSION ORDERS:

1. NSW's Application for a CPCN to provide wastewater service within its proposed service territory in the

Kahuku area, island of Oahu, as identified in Exhibit A of its Application, is approved. NSW'T's service territory shall be as that identified in said Exhibit A.

2. NSW'T's rate structure and wastewater charge, as stipulated by the Parties, are approved, and shall take effect upon filing.

3. NSW'T's proposed tariff rules, as revised, are approved, and shall take effect upon filing.

4. Within three (3) business days from the date of this Decision and Order, NSW'T shall file with the commission and serve upon the Consumer Advocate its initial tariff, consisting of its charges, rules, and regulations. In the event any tariff provision conflicts with State law, State law shall prevail.

5. NSW'T shall file with the commission and serve upon the Consumer Advocate an annual financial report in accordance with the *Uniform System of Accounts - 1996*, of the National Association of Regulatory Utility Commissioners, covering its wastewater service commencing with the year ending December 31, 2005, and each calendar year thereafter. The reports shall be filed no later than March 31 of each year, for the immediate past calendar year, with the first report due no later than March 31, 2006.

6. NSW'T shall promptly notify KRC's existing "customers" of NSW'T's certification as a public utility of wastewater service, and the availability of NSW'T's published rates, charges, and tariff rules. Sample copies of any such

notice shall be filed with the commission and served upon the Consumer Advocate.

7. Within thirty (30) days of this Decision and Order, NSWT shall pay a public utility fee of \$60, pursuant to HRS § 269-30(b). In addition, NSWT is responsible for the regular payment of the public utility fee, as mandated by HRS § 269-30(b).

8. NSWT shall file a copy of its effluent disposal contract with the commission and Consumer Advocate as soon as the contract is completed.

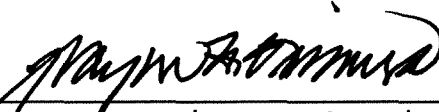
9. The failure to comply with any of the commission's Orders noted above, shall constitute cause to void this Decision and Order and NSWT's CPCN, and may result in further regulatory action as authorized by law.


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

DONE at Honolulu, Hawaii JUN 14 2005.


PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Carlito P. Caliboso, Chairman

By 
Wayne H. Kimura, Commissioner

By 
Janet E. Kawelo, Commissioner

APPROVED AS TO FORM:


Michael Azama
Commission Counsel

04-0298.sl1

**NORTH SHORE WASTEWATER TREATMENT
TEST YEAR ENDED DECEMBER 31, 2005**

**EXHIBIT "C"
SCHEDULE 1**

REVENUE REQUIREMENTS

STIPULATION 5-9-05

Line #	Description	[1]	[2]	[3]
		Factor or Reference	Amount or Rate	Revenue Requirement
1	Average Test Year Rate Base (Excluding Excess Capacity)	Sch. 7		\$ 981,230
2	Rate of Return			8.85%
3	Net Operating Income Requirement	L 1 * L 2		86,839
4	Income Taxes	Line 3 * Rate	0.321685	27,935
4.a	Income Tax Gross-up Factor (Sch. 5)	0.321685		
5	Operating Expense	Sch. 2		376,300
6	Depreciation Expense	Sch. 2		117,134
7	Revenue Requirement before Revenue Taxes	Sum L 3 to L 6		608,208
8	Taxes Other Than Income	Line 7 * Rate	1.068205	41,483
9	Revenue Requirement	L 7 + L 8		\$ 649,691
10	Number of Equivalent Units	Sch. 3		1,132
11	Annual Charge Per Equivalent Unit	L 9 / L 10		\$ 573.93
12	Monthly Charge Per Equivalent Unit	L 11 / 12 mos		\$ 47.83

PLANT UTILIZATION FACTOR

13	Number of Units	Sch. 3	1,132	
14	Total Unit Capacity		4,000	
15	Percent Utilization	L 13 / L 14	28.30%	
16	Percent Plant Used in Calculations			30.00%

**NORTH SHORE WASTEWATER TREATMENT
TEST YEAR ENDED DECEMBER 31, 2005**

**EXHIBIT "C"
SCHEDULE 2**

RESULTS OF OPERATIONS

Page 1 of 1

STIPULATION 5-9-05

		[1]	[2]	[3]	
Line #	Description	Factor or Reference	Amount	Test Year Ended December, 31 2005	
REVENUES					
1	Residential			\$ -	
2	Condominiums			328,305	
3	Hotel			258,282	
4	Commercial			63,136	
5					
6	Other				
7	Total	Sum L1 to L 6		<u>649,723</u>	
OPERATING EXPENSES					
8	Salaries & Wages				
9	Employee Benefits				
10	Operating Contract Operator			251,500	
11	Repairs & Maintenance -- Short Term				
12	Repairs & Maintenance -- Long Term				
13	Chemicals			7,000	
14	Electricity			51,000	
15	Water			7,000	
16	Operating Materials & Supplies			5,000	
17	Customer Billing and Collecting			6,000	
18	Accounting Services			24,000	
19	Kuilima Resort Administrative Services			18,000	
20	Communications			1,200	
21	Travel			600	
22	Office Supplies			600	
23	Uncollectibles				
24	Effluent Disposal	Sch. 6	<u>\$ 54,181</u>	-	[a]
25	Legal and Regulatory			<u>4,400</u>	
26	Total Operating Expenses	Sum L 8 to L 25		376,300	
27	Depreciation Expense	Sch. 10	30.00%	117,134	
28	Taxes Other Than Income	L 7 * Rate	0.06385	<u>41,485</u>	
29	Operating Income Before Income Taxes	L 7 - Sum L26 to L28		114,804	
30	Income Taxes	Sch. 5		<u>27,942</u>	
31	Net Operating Income	L 29 - L 30		<u>\$ 86,862</u>	

[a] No charge for initial rates. Company will document cost distribution for next rate case

NORTH SHORE WASTEWATER TREATMENT
TEST YEAR ENDED DECEMBER 31, 2005

EXHIBIT "C"
SCHEDULE 3

ANNUAL REVENUE CALCULATION

Line #	Description	[1]	[2]	[3]	[4]	[5]	[6] Revenue		[7]
			Equivalent Unit Factor	Number of Units	Number of Equivalent Units	Revenue Per EU	Monthly	Annual	
1	Residential		1.0	0	0.0	\$ 47.83	\$ -	0	
	Condominiums								
	Kuilima East								
2	----Studio and 1 Bedroom Units	One Bathroom	1.0	72	72.0	\$ 47.83	3,444	41,325	
3	----1 Bedroom Units	Two Bathrooms	1.5	88	132.0	\$ 47.83	6,314	75,763	
4	----2 Bedroom Units	Two Bathrooms	1.5	8	12.0	\$ 47.83	574	6,888	
	Kuilima West								
5	----Studio and 1 Bedroom Units	One Bathroom	1.0	112	112.0	\$ 47.83	5,357	64,284	
6	----1 Bedroom Units	Two Bathroom	1.5	24	36.0	\$ 47.83	1,722	20,663	
7	----2 Bedroom Units	Two Bathroom	1.5	48	72.0	\$ 47.83	3,444	41,325	
8	----3 Bedroom Units	Two Bathroom	2.0	16	32.0	\$ 47.83	1,531	18,367	
	Ocean Villas								
9	----1 Bedroom Units	One Bathroom	1.0	10	10.0	\$ 47.83	478	5,740	
10	----2 Bedroom Units	Two Bathroom	1.5	0	0.0	\$ 47.83	-	-	
11	----3 Bedroom Units	Two Bathroom	2.0	37	74.0	\$ 47.83	3,539	42,473	
12	----4 Bedroom Units	Two Bathroom	2.0	10	20.0	\$ 47.83	957	11,479	
13									
	Hotel								
14	----Rooms		1.0	357	357.0	\$ 47.83	17,075	204,904	
15	----Junior Suites		1.0	24	24.0	\$ 47.83	1,148	13,775	
16	----Suites		1.5	3	4.5	\$ 47.83	215	2,583	
17	----Cottages		1.5	43	64.5	\$ 47.83	3,085	37,020	
	Commercial								
18	----Restaurant -- Palm Terrace		20.0	1	20.0	\$ 47.83	957	11,479	
19	----Restaurant -- Twenty One Degrees		20.0	1	20.0	\$ 47.83	957	11,479	
20	----Restaurant -- Banquet Service		20.0	1	20.0	\$ 47.83	957	11,479	
21	----Restaurant -- Lei Leis		20.0	1	20.0	\$ 47.83	957	11,479	
22	----Bar -- Pool		10.0	1	10.0	\$ 47.83	478	5,740	
23	----Bar -- Bay Club		10.0	1	10.0	\$ 47.83	478	5,740	
24	----Snack Bar at Beach		5.0	1	5.0	\$ 47.83	239	2,870	
25	----Golf Course Locker Room		5.0	1	5.0	\$ 47.83	239	2,870	
26	TOTAL			860	1132		\$ 54,144	\$ 649,723	

368 468

OPERATING EXPENSES

STIPULATION 5-9-05

[1]

[2]

Line #	Description	Amount	Test Year Expense
-----------	-------------	--------	----------------------

OPERATING CONTRACT – AQUA ENGINEERS

1	Annual Cost of Operating Contract with Aqua Engineers		<u>\$ 251,500</u>
---	---	--	-------------------

Contract currently under negotiations. Actual charges and contract to be provided.

CHEMICALS

2	Prior Year charges from BMI	\$ 5,749	
3	Increased for additional customers.	<u>1,251</u>	
4	Test Year Estimate		<u>\$ 7,000</u>

ELECTRICITY

5	Charges for WWTP Facility Usage	\$ 39,000	
6	Charge for Pump Station	<u>12,000</u>	
7	Test Year Estimate		<u>\$ 51,000</u>

WATER UTILITY CHARGES

8	Estimate for Test Year		<u>\$ 7,000</u>
---	------------------------	--	-----------------

Company Estimate

OPERATING MATERIALS AND SUPPLIES

9	Estimate for Test Year		<u>\$ 5,000</u>
---	------------------------	--	-----------------

Company estimate for items not included in AE contract

BILLING AND COLLECTION

10	Estimate for Test Year		<u>\$ 6,000</u>
----	------------------------	--	-----------------

Contract to be negotiated. Estimated based on monthly charge of

\$ 500

ACCOUNTING SERVICES

11	Estimate for Test Year		<u>\$ 24,000</u>
----	------------------------	--	------------------

Contract to be negotiated. Estimated based on monthly charge of

\$ 2,000

ADMINISTRATIVE SERVICES

12	Estimate for Test Year		<u>\$ 18,000</u>
----	------------------------	--	------------------

Contract to be negotiated. Estimated based on monthly charge of

\$ 1,500

OPERATING EXPENSES

		[1]	[2]
Line #	Description	Amount	Test Year Expense
<u>COMMUNICATIONS</u>			
13	Estimate for Test Year		\$ 1,200
	Company estimate for items not included in AE contract		
<u>TRAVEL</u>			
14	Estimate for Test Year		\$ 600
	Company estimate for items not included in AE contract		
<u>OFFICE SUPPLIES</u>			
15	Estimate for Test Year		\$ 600
	Company estimate		
<u>OTHER</u>			
16	Legal and Regulatory		\$ 4,400
	Estimate for Application amortized over 25 years		
<u>EFFLUENT CHARGES</u>			
17	Estimate for Test Year		\$ -
	There are no charges for removal of effluent in the initial rates.		
	Calculations and support will be included in Company's first general rate case		

OPERATING EXPENSES
Legal and Regulatory

[1] [2] [3] [4]

Line #	Description	Factor or Reference	Amount	Amount	Total For Test Year
	Application and CPCN Approval				
1	Legal Expenses		\$ 40,000		
2	Regulatory Consulting		60,000		
3	KRC Support		8,000		
4	Miscellaneous Expenses		2,000		
5	Sub-Total			110,000	
6	Number of Years for Amortization			25	
7	Test Year Amortization				4,400
8					
9					
10	Total For Test Year				\$ 4,400

NORTH SHORE WASTEWATER TREATMENT
TEST YEAR ENDED DECEMBER 31, 2005

EXHIBIT "C"
SCHEDULE 5

Income Tax Calculation and Tax Grossup Factor

Line #	Description	[1]	[2]	[3]		[4]	[5]	[6]	[7]
		Bracket Lower Limit	Bracket Upper Limit	Bracket Tax Rate			Income Tax Calculation		Gross Revenue Conversion Factor
				Stated	Effective		Taxable Income	Income Tax Amounts	
STATE INCOME TAX									
1	Settlement Taxable Income--State						\$ 114,804		
2	1st Bracket	-	25,000	4.4000%	4.2150%		25,000	\$ 1,054	
3	2nd Bracket	25,000	100,000	5.4000%	5.1230%		89,804	4,601	
4	3rd Bracket	100,000	10,000,000	6.4000%	6.0150%		-	-	
5	Total State Income Tax							<u>5,655</u>	
FEDERAL INCOME TAX									
6	Settlement Taxable Income--Federal						\$ 109,149		
7	1st Bracket	-	50,000		15%		50,000	7,500	
8	2nd Bracket	50,000	75,000		25%		59,149	14,787	
9	3rd Bracket	75,000	100,000		34%		-	-	
10	4th Bracket	100,000	335,000		39%		-	-	
11	5th Bracket	335,000	10,000,000		34%		-	-	
12	Total Federal Income Tax							<u>22,287</u>	
13	Total Income Tax							<u>\$ 27,942</u>	
14	Effective Tax Rate								<u>0.24339</u>
15	Net to Gross Income Tax Multiplier								<u>1.321685</u>
16	Income Tax Gross Up Requirement								

CALCULATION OF HAWAII EFFECTIVE TAX RATES

		Calculation of Hawaii Effective Rate		
17	Base Level	1.000000	1.000000	1.000000
18	Effective Tax Rate	0.042150	0.051230	0.060150
19	State Taxable Income	0.957850	0.948770	0.939850
20	Stated State Tax Rates	0.044000	0.054000	0.064000
21	Calculation of Effective Tax Rate	0.042145	0.051234	0.060150
22	"Rounded" Effective Tax Rate	Use	0.042150	0.051230

EFFLUENT DISPOSAL CHARGES

Line #	Description	[1] Factor or Reference	[2] Effluent Lines	[3] Injection Wells	[4] KRC-WWTP R-1 Upgrade Cost	[5] Total
1	Gross Initial Investment		\$ 1,801,711	\$ 204,165	\$ -	\$ 2,005,876
2	Accumulated Depreciation ----Life in Years		30	15	15	
3	Annual Depreciation		60,057	13,611	-	
4	Number of Years to 12-31-03		12.5	12.5	0.0	
5	Accumulated Depreciation at 12/03		750,713	170,138	-	
6	Depreciation for 2004		60,057	13,611	-	
7	Accumulated Depreciation at 12/04		810,770	183,749	-	
8	Depreciation for 2005		60,057	13,611	-	
9	Accumulated Depreciation at 12/05		\$ 870,827	\$ 197,360	\$ -	(1,068,187)
10	Net Plant					937,689
11	Rate of Return					8.85%
12	Income Tax Multiple					0.321685
13	Net Operating Income Requirement					26,695
	<u>Operating Expenses</u>					
14	---Labor and Benefits		4,000	1,000	(1,000)	4,000
15	---Electricity		4,000	1,000	(2,000)	3,000
16	---Materials & Supplies		1,000	500	(500)	1,000
17	---Other		-	-	-	-
18	Total Operating Expenses		9,000	2,500	(3,500)	8,000
19	Depreciation		60,057	13,611	-	73,668
20	Total Expenses					81,668
21	Total Revenue Requirement					108,363
22	Percent To Golf Course Operations		50.00%			(54,182)
23	Charge to WWTP For Effluent Disposal					\$ 54,181

NORTH SHORE WASTEWATER TREATMENT

EXHIBIT "C"
SCHEDULE 7

TEST YEAR ENDED DECEMBER 31, 2005

STIPULATION 5-9-05

RATE BASE

Line #	Description	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
		Balance At 12/31/03	2004 Transactions		Balance At 12/31/04	2005 Transactions		Balance At 12/31/05	Average For Test Year
			Amount	Amount		Amount	Amount		
1	Utility Plant in Service	\$ 8,737,015	\$ -	\$ -	\$ 8,737,015	\$ -	\$ -	\$ 8,737,015	
2	Accumulated Depreciation	(4,880,578)	(390,446)		(5,271,024)	(390,446)		(5,661,470)	
3	CWIP				-			-	
4	Net Plant	3,856,437	(390,446)	-	3,465,991	(390,446)	-	3,075,545	
5	Advances in Aid of Construction	(2,868,000)	-	-	(2,868,000)	-	-	(2,868,000)	
6	Deferred Depreciation on AIAC	1,602,294	128,183	-	1,730,477	128,183	-	1,858,660	
7	Contributions in Aid of Construction	-	-	-	-	-	-	-	
8	Accumulated Amortization of CIAC	-	-	-	-	-	-	-	
9	Excess Capacity - Plant	(3,247,911)	-	-	(3,247,911)	-	-	(3,247,911)	
10	Excess Capacity - Accum. Depre.	1,814,111	145,129	-	1,959,240	145,129	-	2,104,369	
11	RATE BASE	\$ 1,156,931	\$ (117,134)	\$ -	\$ 1,039,797	\$ (117,134)	\$ -	\$ 922,663	
12	Average For Test Year								\$ 981,230
13	Working Capital								-
14	Average Test Year Rate Base								\$ 981,230
[a]	Equals 1/12 of Operating Expenses	\$ 376,300 /	12	=	\$ -				

NORTH SHORE WASTEWATER TREATMENT

EXHIBIT "C"

SCHEDULE 8

TEST YEAR ENDED DECEMBER 31, 2005

PAGE 1 OF 3

UTILITY PLANT IN SERVICE

STIPULATION 5-9-05

		[1]	[2]	[3]	[4]	[5]	[6]	
Line		Balance	2004 Transactions		Balance	2005 Transactions		Balance
#	Description	At			At			At
		12/31/03	Additions	Adjustments	12/31/04	Additions	Adjustments	12/31/05
1	Land Improvements	\$ 309,586			\$ 309,586			\$ 309,586
2	Buildings	1,831,955			1,831,955			1,831,955
3	Electrical Work	482,594			482,594			482,594
4	Treatment Plant Equipment	2,404,491			2,404,491	-		2,404,491
5	Lagoons	1,421,442			1,421,442			1,421,442
6	Water/Sewer Lines & Piping	1,497,540			1,497,540			1,497,540
7	Lift Station	220,360			220,360			220,360
8	Force Main	535,200			535,200			535,200
9	Misc. Small Tools & Equip	33,847			33,847			33,847
10	Transmission Mains	-			-			-
11	Collection Mains	-			-			-
12	Vehicles	-			-			-
13	Miscellaneous Equipment	-			-			-
14	PLANT IN SERVICE	\$ 8,737,015	\$ -	\$ -	\$ 8,737,015	\$ -	\$ -	\$ 8,737,015

NORTH SHORE WASTEWATER TREATMENT
TEST YEAR ENDED DECEMBER 31, 2005

EXHIBIT "C"
SCHEDULE 8

STIPULATION 5-9-05

UTILITY PLANT IN SERVICE

PAGE 2 OF 3

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]	[14]
					Treatment Plant Equipment	Aerated Basins / Lagoons	Water Line Sewer Line & Plant Piping	Electrical Work	Lift Station Electrical	Sewer Main	Influent Force Main	Misc. Tools, Fixtures, Small Equip	Effluent Lines & Holding Pond	Injection Wells	General To Be Allocated
Line #	Description	TOTAL	Land Improvements	Buildings											
WASTEWATER TREATMENT PLANT															
	Engineering Design														
1	Surveying	48,297													48,297
2	Construction Stakeout	2,645													2,645
3	Overall Site Construction Stakeout	7,675													7,675
4	Preliminary Engineering	10,000													10,000
5	Design & Preparation of Contract Documents	346,000													346,000
6	Cadastral / Mapping	6,000													6,000
7	Electrical Engineering	3,500													3,500
8	Geothermal Engineering	26,043													26,043
9	Geothermal Engineering	14,271													14,271
10	Sub-total Engineering Design	464,431													464,431
	Construction Cost														
11	Site Work	1,580,000													1,580,000
12	Headworks: Facility Grit Removal	613,000			613,000										
13	Influent Box & Odor Control	199,000			199,000										
14	Administration Building	753,000		753,000											
15	Chlorination Building	347,000		347,000											
16	Chlorine Contact Tank	376,000			376,000										
17	Pump & Filter Facilities	588,000			588,000										
18	Aerated Basins	898,000				898,000									
19	Plant Piping	865,000					865,000								
20	Misc. Equip, Tools, Supplies	25,000										25,000			
21	Landscaping & Sprinkler System	64,000	64,000												
22	Access Road	43,000	43,000												
23	Force Main	100,000					100,000								
24	Water Line	125,000					125,000								
25	Effluent Line to Distribution Box	230,000											230,000		
26	Effluent Line to Golf Course	960,000											960,000		
27	Injection Wells	195,000												195,000	
28	Traffic Control Provisions	42,000	42,000												
29	Electrical Work	160,000						160,000							
30	Misc. Work, Inspections & Testing	35,000													35,000
31	Storage Building	93,000		93,000											
32	Mobilization	255,000													255,000
33	Retainage	11,331	198	1,581	2,355	1,191	1,446	212				33	1,837		2,478
34	Change Order # 1	170,000											112,000		58,000
35	Change Order # 2	171,400				7,000	16,131	174,237					1,632	(44,000)	16,400
36	Sub-total Construction	8,898,731	149,198	1,194,581	1,778,355	906,191	1,107,577	334,449	-	-	-	25,033	1,305,469	151,000	1,946,878
	Additional Costs														
37	Admin. Fixtures/Irrigation	2,979										2,979			
38	Extra Work	91,815													91,815
39	Storm Damage	98,827													98,827

NORTH SHORE WASTEWATER TREATMENT
TEST YEAR ENDED DECEMBER 31, 2005

EXHIBIT "C"
SCHEDULE 8

STIPULATION 5-8-05

UTILITY PLANT IN SERVICE

PAGE 3 OF 3

Line #	Description	[1] TOTAL	[2] Land Improvements	[3] Buildings	[4] Treatment Plant Equipment	[5] Aerated Basins / Lagoons	[6] Water Line Sewer Line & Plant Piping	[7] Electrical Work	[8] Lift Station Electrical	[9] Sewer Main	[10] Influent Force Main	[11] Misc. Tools, Fixtures, Small Equip	[12] Effluent Lines & Holding Pond	[13] Injection Wells	[14] General To Be Allocated
40	HECO Underground Cable	22,476						22,476							
41	CRM Wa(w)ll & Berm	112,404				112,404									
42	Sub-total Additional Costs	134,880	-	-	-	112,404	-	22,476	-	-	-	-	-	-	-
Post Design Services															
43	Additional Engineering Services	15,000													15,000
44	Post Design Services	115,020													115,020
45	Additional Services	15,000													15,000
46	Operation & Maintenance Manual	114,000		114,000											
47	Existing Wastewater Pond Closure	15,400				15,400									
48	West Stabilization Pond	17,300				17,300									
49	Dewatering Ponds	27,072											27,072		
50	Sub-total Post Design	318,792	-	114,000	-	32,700	-	-	-	-	-	-	27,072	-	145,020
51	TOTAL CONSTRUCTION COST	9,816,834	149,198	1,308,581	1,778,355	1,051,295	1,107,577	356,925	-	-	-	25,033	1,332,541	151,000	2,556,329
52	Distribution of General Costs	-	52,531	460,734	626,136	370,147	389,963	125,669	-	-	-	8,814	469,170	53,165	(2,556,329)
53	TOTAL CONSTRUCTION COSTS	9,816,834	201,729	1,769,315	2,404,491	1,421,442	1,497,540	482,594	-	-	-	33,847	1,801,711	204,165	\$ -
54	Retained by Kullima Resort Corp.	(2,005,876)											(1,801,711)	(204,165)	
55	Charged to Kullima WWTP	7,810,958	201,729	1,769,315	2,404,491	1,421,442	1,497,540	482,594	-	-	-	33,847	\$ -	\$ -	
FORCE MAIN AND PUMP STATION # 1															
56	Force Main	535,200									535,200				
57	Entrance Road	107,857	107,857												
58	Sewer Lines	164,920								164,920					
59	Generator Building	62,640		62,640											
60	Exterior Electrical	55,440							55,440						
61	Additional Amount	82,350													82,350
62	Sub-total FM and PS # 1	1,008,407	107,857	62,640	-	-	-	-	55,440	164,920	535,200	-	-	-	82,350
63	Not Capitalized	(82,350)													(82,350)
64	TOTAL PLANT at 12-31-03	8,737,015	309,586	1,831,955	2,404,491	1,421,442	1,497,540	482,594	55,440	164,920	535,200	33,847	-		\$ -
65	2004 Additions	-													
66	TOTAL PLANT at 12-31-04	8,737,015	309,586	1,831,955	2,404,491	1,421,442	1,497,540	482,594	55,440	164,920	535,200	33,847	-		
67	2005 Additions	-													
68	TOTAL PLANT at 12-31-05	\$ 8,737,015	\$ 309,586	\$ 1,831,955	\$ 2,404,491	\$ 1,421,442	\$ 1,497,540	\$ 482,594	\$ 55,440	\$ 164,920	\$ 535,200	\$ 33,847	\$ -		

NORTH SHORE WASTEWATER TREATMENT
TEST YEAR ENDED DECEMBER 31, 2005

EXHIBIT "C"
SCHEDULE 9

ACCUMULATED DEPRECIATION

STIPULATION 5-9-06

Line #	Description	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
		TOTAL	Land Improvements	Buildings	Treatment Plant Equipment	Aerated Basins / Lagoons	Water Line Sewer Line & Plant Piping	Electrical Work	Lift Station		Influent Force Main	Misc. Tools, Fixtures, Small Equip
									Electrical	Sewer Main		
PLANT ADDED PRIOR TO MAY 1991												
1	NO COST SUPPORT											
2												
3	Total Prior to May 1991	-	-	-	-	-	-	-	-	-	-	-
4	Depreciable Life in Years		0	0	0	0	0	0	0	0	0	0
5	Annual Depreciation Expense		-	-	-	-	-	-	-	-	-	-
6	Number of Year in Service											
7	Accumulated Depreciation at 12-31-03	-	-	-	-	-	-	-	-	-	-	-
PLANT ADDED IN 1991												
8	Wastewater Treatment Plant		201,729	1,769,315	2,404,491	1,421,442	1,497,540	482,594	-	-	-	33,847
9	Force Main & Lift Station # 1		107,857	62,640	-	-	-	-	55,440	164,920	535,200	-
10	Total Added in 1991	8,737,015	309,586	1,831,955	2,404,491	1,421,442	1,497,540	482,594	55,440	164,920	535,200	33,847
11	TOTAL PLANT at 12-31-03	8,737,015	417,443	1,894,595	2,404,491	1,421,442	1,497,540	482,594	110,880	329,840	1,070,400	33,847
12	2004 Additions	-	-	-	-	-	-	-	-	-	-	-
13	TOTAL PLANT at 12-31-04	8,737,015	417,443	1,894,595	2,404,491	1,421,442	1,497,540	482,594	110,880	329,840	1,070,400	33,847
14	2005 Additions	-	-	-	-	-	-	-	-	-	-	-
15	TOTAL PLANT at 12-31-05	<u>\$ 8,737,015</u>	<u>\$ 417,443</u>	<u>\$ 1,894,595</u>	<u>\$ 2,404,491</u>	<u>\$ 1,421,442</u>	<u>\$ 1,497,540</u>	<u>\$ 482,594</u>	<u>\$ 110,880</u>	<u>\$ 329,840</u>	<u>\$ 1,070,400</u>	<u>\$ 33,847</u>
16	Depreciable Life in Years		30	30	15	30	30	15	15	30	30	15
17	Annual Depreciation Expense 2003	<u>\$ 390,446</u>	10,320	61,065	160,299	47,381	49,918	32,173	3,696	5,497	17,840	2,256
18	Number of Year in Service		12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
19	Accumulated Depreciation at 12-31-03	4,880,578	128,994	763,315	2,003,743	592,268	623,975	402,162	46,200	68,717	223,000	28,206
20	Annual Depreciation Expense 2004	<u>390,446</u>	<u>10,320</u>	<u>61,065</u>	<u>160,299</u>	<u>47,381</u>	<u>49,918</u>	<u>32,173</u>	<u>3,696</u>	<u>5,497</u>	<u>17,840</u>	<u>2,256</u>
21	Accumulated Depreciation at 12-31-04	5,271,024	139,314	824,380	2,164,042	639,649	673,893	434,335	49,896	74,214	240,840	30,462
22	Annual Depreciation Expense 2005	<u>390,446</u>	<u>10,320</u>	<u>61,065</u>	<u>160,299</u>	<u>47,381</u>	<u>49,918</u>	<u>32,173</u>	<u>3,696</u>	<u>5,497</u>	<u>17,840</u>	<u>2,256</u>
23	Accumulated Depreciation at 12-31-05	<u>\$ 5,661,470</u>	<u>\$ 149,633</u>	<u>\$ 885,445</u>	<u>\$ 2,324,341</u>	<u>\$ 687,030</u>	<u>\$ 723,811</u>	<u>\$ 466,508</u>	<u>\$ 53,592</u>	<u>\$ 79,711</u>	<u>\$ 258,680</u>	<u>\$ 32,719</u>

NORTH SHORE WASTEWATER TREATMENT

EXHIBIT "C"
SCHEDULE 10

TEST YEAR ENDED DECEMBER 31, 2005

PAGE 1 OF 1

ADVANCES IN AID OF CONSTRUCTION
EXCESS CAPACITY

STIPULATION 5-9-05

Line #	Description	Factor or Reference	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
			Balance At 12/31/03	2004 Transactions		Balance At 12/31/04	2005 Transactions		Balance At 12/31/05	Average For Test Year	Depreciation Expense
				Additions	Adjustments		Additions	Adjustments			
TOTAL NET PLANT											
1	PLANT IN SERVICE	Sch 7, L 1	\$ 8,737,015	\$ -	\$ -	\$ 8,737,015	\$ -	\$ -	\$ 8,737,015		
2	ACCUMULATED DEPRECIATION	Sch 7, L 2	(4,880,578)	(390,446)	-	(5,271,024)	(390,446)	-	(5,661,470)		
3	Net Plant	L 1 + L 2	\$ 3,856,437	\$ (390,446)	\$ -	\$ 3,465,991	\$ (390,446)	\$ -	\$ 3,075,545	\$ 3,270,768	\$ 390,446
UNUSED CAPACITY											
4	Percent of Unused Capacity	1-Sch 1, L 16	70.00%	70.00%	70.00%		70.00%	70.00%			70.00%
5	Plant in Service	L 1 * L 4	\$ 6,115,911	\$ -	\$ -	\$ 6,115,911	\$ -	\$ -	\$ 6,115,911		
6	Accumulated Depreciation	L 2 * L 4	(3,416,405)	(273,312)	-	(3,689,717)	(273,312)	-	(3,963,029)		
7	Net Plant	L 5 + L 6	\$ 2,699,506	\$ (273,312)	\$ -	\$ 2,426,194	\$ (273,312)	\$ -	\$ 2,152,882	\$ 2,289,538	\$ 273,312
8	Depreciation Expense	L 3 - L 7									\$ 117,134
ADVANCE IN AID OF CONSTRUCTION											
9	Number of Available Equivalent Units	Sch 1, L14-L13	2,868		-		-	-			
10	Advance Per Equivalent Unit		\$ 1,000				\$ 1,000	\$ 1,000			
11	Total AIAC	L 9 * L 10	\$ 2,868,000	\$ -	\$ -	\$ 2,868,000	\$ -	\$ -	\$ 2,868,000		
12	AIAC as a percent of Plant in Service	L 11 / L 1	32.83%	32.83%	32.83%		32.83%	32.83%			32.83%
13	Deferred Depreciation on AIAC	L 2 * L 12	\$ (1,602,294)	\$ (128,183)	\$ -	\$ (1,730,477)	\$ (128,183)	\$ -	\$ (1,858,660)		\$ 128,183
EXCESS CAPACITY ADJUSTMENT											
14	Plant in Service	L 5 - L 11	\$ 3,247,911	\$ -	\$ -	\$ 3,247,911	\$ -	\$ -	\$ 3,247,911		
15	Accumulated Depreciation	L 6 - L 13	(1,814,111)	(145,129)	-	(1,959,240)	(145,129)	-	(2,104,369)		
16	Net Plant	L 14 + L 15	\$ 1,433,800	\$ (145,129)	\$ -	\$ 1,288,671	\$ (145,129)	\$ -	\$ 1,143,542		\$ 145,129

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 21864 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
DIVISION OF CONSUMER ADVOCACY
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Karen Higashi

DATED: JUN 14 2005