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. 2006-0486

For Review and Approval of Rate Increases Pursuant to Hawaii Revised Statutes § 269-16; and Revised Rate Schedules

PROPOSED DECISION AND ORDER NO. 23916

Filed __________, 2007
At ______ o'clock ______.M.

Karen Higashit
Chief Clerk of the Commission

ATTEST: A True Copy
KAREN HIGASHI
# TABLE OF CONTENTS
(Docket No. 2006-0486)

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. BACKGROUND</td>
<td></td>
</tr>
<tr>
<td>A. NSW</td>
<td>2</td>
</tr>
<tr>
<td>B. Docket No. 04-0298</td>
<td>3</td>
</tr>
<tr>
<td>C. Docket No. 05-0238</td>
<td>4</td>
</tr>
<tr>
<td>D. Application</td>
<td>5</td>
</tr>
<tr>
<td>E. NSW's Settlement with KEE, KEW, and OV</td>
<td>7</td>
</tr>
<tr>
<td>F. Public Hearing</td>
<td>9</td>
</tr>
<tr>
<td>G. Stipulated Issues</td>
<td>10</td>
</tr>
<tr>
<td>H. Discovery</td>
<td>10</td>
</tr>
<tr>
<td>I. HRS § 269-16(f)</td>
<td>11</td>
</tr>
<tr>
<td>II. DISCUSSION</td>
<td></td>
</tr>
<tr>
<td>A. Summary of the Stipulation</td>
<td>12</td>
</tr>
<tr>
<td>B. Revenue</td>
<td>14</td>
</tr>
<tr>
<td>C. Operating Expenses</td>
<td>15</td>
</tr>
<tr>
<td>1. Electricity</td>
<td>16</td>
</tr>
<tr>
<td>2. Water Utility Charges</td>
<td>17</td>
</tr>
<tr>
<td>3. Professional Fees for Aqua Engineers, Inc.</td>
<td>17</td>
</tr>
<tr>
<td>4. Chemicals</td>
<td>18</td>
</tr>
<tr>
<td>5. Insurance</td>
<td>19</td>
</tr>
<tr>
<td>6. Administrative and Billing Fees</td>
<td>19</td>
</tr>
<tr>
<td>7. Repair and Maintenance - Equipment</td>
<td>20</td>
</tr>
<tr>
<td>8. Amortization of CPCN Application</td>
<td>21</td>
</tr>
<tr>
<td>9. Rate Case Amortization</td>
<td>21</td>
</tr>
<tr>
<td>10. Operating Materials and Supplies</td>
<td>23</td>
</tr>
<tr>
<td>11. Depreciation</td>
<td>24</td>
</tr>
<tr>
<td>12. Taxes</td>
<td>25</td>
</tr>
<tr>
<td>D. Rate Base</td>
<td>26</td>
</tr>
<tr>
<td>1. Net Plant-in-Service</td>
<td>26</td>
</tr>
<tr>
<td>2. Advances in Aid of Construction</td>
<td>27</td>
</tr>
<tr>
<td>3. Deferred Depreciation of Advances in Aid of Construction</td>
<td>28</td>
</tr>
<tr>
<td>4. Excess Capacity - Plant</td>
<td>28</td>
</tr>
<tr>
<td>5. Excess Capacity - Accumulated Depreciation</td>
<td>29</td>
</tr>
<tr>
<td>6. Working Capital</td>
<td>29</td>
</tr>
<tr>
<td>E. Rate of Return</td>
<td>30</td>
</tr>
<tr>
<td>F. Rate Design</td>
<td>31</td>
</tr>
<tr>
<td>G. APCAC</td>
<td>35</td>
</tr>
<tr>
<td>III. SUMMARY OF FINDINGS AND CONCLUSIONS</td>
<td>36</td>
</tr>
<tr>
<td>IV. ACCEPTANCE OR NON-ACCEPTANCE</td>
<td>37</td>
</tr>
<tr>
<td>V. ORDERS</td>
<td>38</td>
</tr>
<tr>
<td>Exhibits 1 and 2</td>
<td>i</td>
</tr>
</tbody>
</table>
BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
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NORTH SHORE WASTEWATER
TREATMENT, L.L.C)
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For Review and Approval of Rate
Increases Pursuant to Hawaii
Revised Statutes § 269-16; and
Revised Rate Schedules)
)

Docket No. 2006-0486
Proposed Decision and
Order No. 23916

PROPOSED DECISION AND ORDER

By this Proposed Decision and Order, the commission approves rates for NORTH SHORE WASTEWATER TREATMENT, L.L.C. ("NSW"), as agreed upon by NSW and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate")¹ (jointly, the "Parties") in their "Stipulation of Settlement Agreement in Lieu of Rebuttal Testimonies," jointly filed by the Parties on November 15, 2007.²

¹The Consumer Advocate is an ex officio party to this docket pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62.

²Stipulation of Settlement Agreement in Lieu of Rebuttal Testimonies, Exhibits A to C, and Certificate of Service, filed on November 15, 2007 (the "Stipulation").
Specifically, the commission approves, based on a 2007 calendar test year ("Test Year"): a $664,515 increase in NSW’s revenues, resulting in a revenue requirement for NSW of $686,595; an average Test Year rate base of $863,790; and a return on rate base of 8.85%. In addition, the commission approves NSW’s request to establish an Automatic Power Cost Adjustment Clause ("APCAC") that will allow NSW to increase or decrease its rates based on any corresponding increase or decrease in NSW’s cost for electricity.

I.

Background

A.

NSW

NSW, a Delaware limited liability company, is authorized to do business in the State of Hawaii, and has its principal place of business in Kahuku, Oahu. NSW is a public utility that provides wastewater collection and treatment services. NSW’s service territory is comprised of the Turtle Bay Resort hotel ("Hotel"), the Turtle Bay Golf Club ("Golf Club"), certain restaurants located in or adjacent to the Hotel and the Golf Club, and certain surrounding properties, including the

1On December 19, 2006, NSW filed a motion that requested the commission to: (1) allow NSW to submit unaudited financial information in lieu of the audited balance sheet required by HAR § 6-61-75(b)(1); and (2) utilize 2007 calendar test year financial data in the place of mid-year 2006-2007 test year data, as required by HAR § 6-61-88(3). By Order No. 23190, filed on January 11, 2007, the commission approved NSW’s requests.

4Differences between amounts referenced herein and amounts reflected on the attached Exhibits 1 and 2 are due to rounding.
Kuilima Estates East ("KEE") and Kuilima Estates West ("KEW") condominium projects, and the Ocean Villas ("OV") condominium project.

Kuilima Resort Company ("KRC"), a Hawaii general partnership, is the current owner of the Hotel, the Golf Club, and certain surrounding properties on the North Shore of Oahu. KRC also owns all of the land within the applicable service area, and was the provider of wastewater service prior to NSW becoming certificated by the commission in 2005.

NSW states that its sole member is Turtle Bay Holding, L.L.C., a Delaware limited liability company, which is also the ninety-nine percent general partner of KRC. NSW further states that it was formed to provide the wastewater service and to acquire the treatment plant from KRC after it obtained a Certificate of Public Convenience and Necessity ("CPCN") from the commission.5

B.

Docket No. 04-0298

By Decision and Order No. 21864, filed on June 14, 2005, in Docket No. 04-0298 ("Decision and Order No. 21864"), NSW was granted a CPCN to provide wastewater treatment service to customers within the Turtle Bay Resort area on the island of Oahu. Decision and Order No. 21864 also approved the rules governing NSW’s provision of the regulated wastewater treatment

5See Application, Exhibit NSW 1 through Exhibit NSW 12, Exhibit NSW-T-100, Verification, and Certificate of Service, filed on June 22, 2007 ("Application"), at 3.
service and the initial rates that were to be assessed for such service.

C.

Docket No. 05-0238

Subsequent to the issuance of Decision and Order No. 21864, several owners of the units in KEE and KEW filed informal complaints with the commission, alleging that their condominium associations had been charged rates for wastewater service provided by KRC, and that they had not received proper notice of the proposed increase in rates authorized by the commission in Decision and Order No. 21864.

By Order No. 22045, filed on September 21, 2005, the commission opened Docket No. 05-0238 to, among other things, investigate the informal complaints. The commission named NSW, KRC, the Consumer Advocate, KEW, and KEE as parties to the docket and ordered NSW and KRC to appear at a hearing on October 26, 2005. After the completion of the hearing, the commission issued Decision and Order No. 22282, on February 10, 2006 ("Decision and Order No. 22282"), which permanently suspended the rates previously authorized in Decision and Order No. 21864.6

In Decision and Order No. 22282, the commission deemed NSW's request to establish initial rates for wastewater service to be a "de facto" rate case. Based on this finding, the commission determined that NSW's application in Docket No. 04-0298 was not properly processed and the existing customers who would be charged the proposed rates did not receive proper notice, nor did the customers have any opportunity to participate in a public hearing on NSW's proposal.

2006-0486 4
application seeking commission approval of the initial proposed rates to be charged to customers for wastewater service.

D. Application

Consistent with Decision and Order No. 22282, on June 22, 2007, NSW filed its Application requesting commission review and approval of rate increases and revised rate schedules, pursuant to HRS § 269-16(f). In the Application, NSW asserted that its rates do not now and will not in the foreseeable future produce sufficient revenues for NSW to earn a fair rate of return. At present rates, NSW projected a Test Year net operating loss of $343,249, and a negative 39.53% rate of return on an average rate base of $868,330. NSW sought approval from the commission to increase its rates to produce an overall revenue requirement of $745,430. If approved, NSW contended

7On July 5, 2007, the Consumer Advocate filed its Statement of Position Regarding Completeness of Application, informing the commission, among other things, that it did not object to the completeness of the Application. In addition, the Consumer Advocate stated that it did not object to NSW’s requested waiver in the Application of HAR § 6-61-88(2) to express the increase in the proposed rates in terms of a percent.

By Order No. 23579, filed on August 7, 2007, the commission approved NSW’s request to waive the requirements of HAR § 6-61-88(2). The commission also found that the Application was complete and properly filed under HRS § 269-16(f) and HAR § 6-61-88, with a completed filing date of June 22, 2007.

8See Application at 9.

9NSW clarified that KEE and KEW are paying $5.00 per month per unit to KRC for sewer service, and that these monthly payments were used to calculate the revenues at present rates for KEE and KEW in order to show how these customers will be impacted by the rate increase requested by NSW. See id. at 9 n.8.
that the proposed changes would generate an additional $723,350 in revenues above the $22,050 currently paid by KEE and KEW to KRC. NSW stated that it utilized an 8.85% overall rate of return in determining Test Year revenues.

Regarding rate design, NSW represented that it prepared a cost of service study and identified the expenses that could be characterized as either variable or fixed. Based on this cost of service study, NSW stated that, of the total $574,029 in operations and maintenance ("O&M") expenses, $337,980 was variable and $236,049 was fixed.\(^{10}\) According to NSW, in order to establish a formula for allocating the variable costs to each customer class, in September and October 2006, NSW conducted a fourteen-day wastewater flow metering test to ascertain the approximate flows from each of the customer classes.\(^{11}\) NSW then used the results of the wastewater flow metering test to allocate the variable charges for each customer class.

To set the fixed charge portion of the proposed rates, NSW explained that it assigned each of its various classes of customers equivalent units ("EU"). A total of 1132 EU's being serviced by NSW resulted in a monthly fixed charge of

NSW stated, however, that it is not possible to calculate the proposed rate increase in terms of a percent because NSW is not receiving any revenues at this time. In this regard, NSW explained that its approved rates are suspended, and the $5.00 per unit per month fee paid by the condominium associations is paid to KRC and not to NSW. See id. at 9 n.9.

\(^{10}\)See id. at 9.

\(^{11}\)For example, NSW states that the wastewater flow metering test determined that KEE generated 12% of the overall wastewater flow, while KEW generated 20% of the overall wastewater flow. See id. at 10.
$23.51 per EU.\textsuperscript{12} NSW set forth its existing and proposed rates in the Application as follows:

<table>
<thead>
<tr>
<th>Customers</th>
<th>Present Charge</th>
<th>Proposed Fixed Charge Per EU\textsuperscript{13}</th>
<th>Proposed Treatment Charge</th>
<th>Percent Increase\textsuperscript{14}</th>
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<tr>
<td>Hotel</td>
<td>$0.00</td>
<td>$23.43</td>
<td>$23,849.57</td>
<td>N/A</td>
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<td>KEE</td>
<td>$0.00</td>
<td>$23.43</td>
<td>$4,271.57</td>
<td>N/A</td>
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<td>KEW</td>
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<tr>
<td>OV</td>
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<td>$23.43</td>
<td>$355.96</td>
<td>N/A</td>
</tr>
<tr>
<td>Restaurants</td>
<td>$0.00</td>
<td>$23.43</td>
<td>$0.00</td>
<td>N/A</td>
</tr>
<tr>
<td>Other Commercial</td>
<td>$0.00</td>
<td>$23.43</td>
<td>$0.00</td>
<td>N/A</td>
</tr>
</tbody>
</table>

In addition, NSW requested that it be authorized to establish an APCAC that would allow NSW to increase or decrease the rates it charges for wastewater service based on any corresponding increase or decrease in the electricity cost charged to NSW by Hawaiian Electric Company, Inc. in relation to the base cost of electricity established in this proceeding. NSW provided its proposed APCAC formula in Exhibit NSW 11, and further described the proposed APCAC formula in NSW-T-100 (Testimony of Robert O’Brian).

E.

**NSW’s Settlement with KEE, KEW, and OV**

In the Application, NSW represented that, commencing in early December 2006, representatives of NSW met with

\textsuperscript{12}See id.

\textsuperscript{13}NSW listed the number of EUs for each of its customers in column 1 of Exhibit NSW 9-2.

\textsuperscript{14}As stated above, NSW is not able to calculate its proposed rate increase in terms of a percent.
representatives of KEE, KEW, and OV (collectively, the "Condo Associations") to discuss NSW's rate case filing. NSW asserts that it sought to reach certain agreements and understandings with the Condo Associations on this rate case, as well as on processes and procedures that would allow NSW and the Condo Associations to cooperatively work together to help validate and confirm information that would streamline rate case filings in the future. At the time NSW filed the Application, it had reached agreement with KEE and KEW, but had not yet reached an agreement with OV. NSW attached a form of the settlement agreement that KEE and KEW had agreed upon (and were in the process of executing) as Exhibit NSW 12 to the Application.

Subsequently, on June 29, 2007, a settlement agreement was executed by and between NSW, KRC, KEE, KEW, and OV ("Settlement Agreement"). By letter dated August 1, 2007, NSW filed a copy of the Settlement Agreement with the commission. The parties to the Settlement Agreement agreed to the following proposed rates for this proceeding: (a) $35.54 per month for each unit at KEE; (b) $41.67 per month for each unit at KEW; and $31.35 per month for each unit at OV. KRC agreed to provide a monthly payment to NSW that is equal to the difference between the rates formally established for the Condo Associations based on the revenue requirement determined in this proceeding, and the revenue provided by the proposed rates in the Settlement Agreement, noted above. The Settlement Agreement provides that this payment by KRC will remain in effect until NSW's next rate case is filed and new rates and charges are
approved by the commission. In addition, the Condo Associations agreed not to intervene in this rate case.

F.

Public Hearing

On August 6, 13, 20, and 27, 2007, the commission published its Notice of Public Hearing statewide in various newspapers, in accordance with HRS §§ 1-28.5 and 269-16(c).\(^5\) NSW mailed a notice of the public hearing to its customers on August 9, 2007, consistent with HRS § 269-12(c).\(^6\)

On August 29, 2007, the commission held a public hearing on the Application at Sunset Beach Elementary School in Haleiwa, Hawaii, pursuant to HRS §§ 269-12(c) and 269-16(f)(2). At the public hearing, NSW’s representative and the Consumer Advocate orally testified and submitted written comments. Several other individuals, including representatives from the condominium associations for KEW and KEE, also testified. After all individuals were given an opportunity to present testimony, the commission closed the public hearing.


\(^6\)See Letter filed on August 22, 2007, from NSW to the commission.
G.

Stipulated Issues

The Parties submitted a Stipulated Procedural Order, which was approved by the commission as Stipulated Procedural Order No. 23656, filed on September 12, 2007. As set forth in Stipulated Procedural Order No. 23656, the issues in this case are:

1. Is NSW's proposed rate increase reasonable?
   a. Are the proposed tariffs, rates, and charges just and reasonable?
   b. Are the revenue forecasts for the Test Year at present rates and proposed rates reasonable?
   c. Are the projected operating expenses for the Test Year reasonable?
   d. Is the projected rate base for the Test Year reasonable, and are the properties included in the rate base used or useful for public utility purposes?
   e. Is the rate of return requested fair?

H.

Discovery

In Stipulated Procedural Order No. 23656, the Parties also agreed to a schedule for discovery. Pursuant to this schedule, the Consumer Advocate issued information requests
(“IRs”) to NSW on September 28, 2007. NSW filed its responses to these IRs on October 9, 2007 (NSW’s IR Responses).  

On October 29, 2007, the Consumer Advocate submitted its Direct Testimony and Exhibits.\(^{18}\)

On November 15, 2007, the Parties jointly filed their Stipulation, supported by the Parties’ worksheets, data, and other information.

I.

**HRS § 269-16(f)**

As a public utility with annual gross revenues of less than $2 million, NSW filed its Application in accordance with HRS § 269-16(f), which streamlines the rate review process for small public utilities with annual gross revenues of less than $2 million. Pursuant to HRS § 269-16(f)(3), the commission must make every effort to issue its Proposed Decision and Order within six months from the filing date of NSW’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.” HRS § 269-16(f)(3).

The commission timely issues this Proposed Decision and Order, in accordance with HRS § 269-16(f)(3).\(^{19}\)

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\(^{17}\) NSW also filed a supplemental response to CA-IR-5 on October 24, 2007.

\(^{18}\) Division of Consumer Advocacy’s Direct Testimony and Exhibits, filed on October 29, 2007 (“Consumer Advocate’s Direct Testimony”).

\(^{19}\) As discussed above, the commission ruled that the date of NSW’s completed Application was June 22, 2007.
II.

Discussion

As noted above, the Parties filed a Stipulation on November 15, 2007, which reflects the Parties' global settlement of all the issues in this proceeding. In reaching their global agreement, the Parties note:

1. The Stipulation, binding between them, "represent[s] compromises by the Parties to fully and finally resolve all issues in the subject docket on which they had differences for the purpose of simplifying and expediting this proceeding, and are not meant to be an admission by either of the Parties as to the acceptability or permissibility of matters stipulated to herein."²⁰

2. They reserve their respective rights to proffer, use, and defend different positions, arguments, methodologies, or claims regarding stipulated matters in other dockets or proceedings.

3. They have stipulated to the various revenue and rate components in the Stipulation as being appropriate, without necessarily agreeing on the underlying methodologies or justifications asserted by the other party. Moreover, "nothing contained in this Stipulation shall be deemed to, nor be interpreted to, set any type of precedent, or be used as evidence of either Parties' position in any future regulatory proceeding, except as necessary to enforce this Stipulation."²¹

See Order No. 23579, filed on August 7, 2007. Thus, the deadline for the commission to issue its Proposed Decision and Order is December 22, 2007.

²⁰Stipulation at 8.

²¹Id.
4. 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." 22

5. 

"[T]he Commission may take such steps and actions it deems necessary and appropriate to facilitate its review of this Stipulation, and to determine whether this Stipulation should be approved." 23

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. 24 In this regard, it is well-settled that an agreement between the parties in a rate case cannot bind the commission, as the commission has an independent obligation to set fair and just rates and arrive at its own conclusion. See In re Hawaiian Elec. Co., Inc., 5 Haw. App. 445, 698 P.2d 304 (1985). With this mandate, the commission proceeds in reviewing the justness and reasonableness of the Parties' Stipulation, taken as a whole.

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22 Id. at 29.
23 Id. at 30.
24 Id. at 2.
A.

**Summary of the Stipulation**

Exhibits A, B, and C, attached to the Stipulation show NSW's revenue requirement, expenses, customer usage information, rate base, and summary results of operations resulting from the Stipulation. In particular, the Parties agreed to: a $664,515 increase in Test Year revenues from present rates and a revenue requirement for NSW of $686,595; total operating expenses of $610,149; an average rate base of $863,790; and a return on rate base of 8.85%. The Parties represent that the result of the Stipulation is to allow NSW to recover its expenses and net operating income, under the settlement terms.

B.

**Revenue**

NSW originally sought a Test Year revenue requirement of $745,430 in its Application. In its Direct Testimony, the Consumer Advocate proposed a Test Year revenue requirement amount of $673,262.\(^{25}\) As set forth in Exhibit A, attached to the Stipulation,\(^{26}\) the Parties have settled on a Test Year revenue

\(^{25}\)In the Consumer Advocate's Direct Testimony, the Consumer Advocate stated: "NSW's total revenue requirement is $745,430, which is $72,168 more than the Consumer Advocate's revenue requirement of $682,430." CA-T-1 at 4. In the Stipulation, however, the Parties state: "The Parties agree and acknowledge that the amount reflected in this statement relating to the Consumer Advocate's revenue requirement should have been $673,262 as shown on CA-101." Stipulation at 9 n.10.

\(^{26}\)On December 11, 2007, the Consumer Advocate filed a revised first page of Exhibit A on behalf of the Parties. The Consumer Advocate explained that, upon further review of the Stipulation, a discrepancy was found in the revenue amounts shown...
requirement amount of $686,595, consisting of $610,149 in total operating expenses, depreciation and taxes, plus $76,445 in additional revenues to yield operating income after income taxes of $76,445, and an 8.85% stipulated rate of return on NSW's stipulated rate base amount of $863,790. This results in a revenue increase of $664,515.

Based on the evidence in the record relating to the Parties' agreed-upon amounts for items that comprise NSW's operating revenues (i.e., operating expenses, depreciation, and taxes), discussed further below, the commission finds reasonable the Parties' stipulated amount for NSW's Test Year total operating revenues.

C.

Operating Expenses

As set forth in Exhibit A of the Stipulation, the Parties agreed on an amount of $470,584 for NSW's Test Year total O&M expense, instead of $525,097 as proposed by NSW in its Application. In doing so, the Consumer Advocate made certain adjustments to NSW's O&M expense items for various reasons detailed in its Direct Testimony.27 In addition, the Parties state that the Consumer Advocate, based on information provided on the original Exhibit A, page 1, and that the revised page of Exhibit A shows the correct amounts. The Parties' agreed-upon terms in Exhibit A of the Stipulation, as revised by the Parties on December 11, 2007, are also set forth in Exhibit 1, attached hereto, which the commission approves herein.

27In Exhibit CA-103 of CA-T-1, the Consumer Advocate provided a chart summarizing the Consumer Advocate's adjustments to NSW's operating expenses.
during settlement discussions, agreed to adjust its filed expenses by increasing the rate case expense amortization by $12,333 for a total O&M expense of $470,584.

A discussion of each of NSW's O&M expense items, the additional information and analyses provided by NSW to the Consumer Advocate as part of the settlement negotiations and discussions, as set forth in the Stipulation, and the resulting settlement reached between the Parties on each O&M expense item follows below.

1.

Electricity

In its Application, NSW proposed a Test Year expense amount for electricity of $71,341. Subsequently, in response to CA-IR-7, NSW provided the Consumer Advocate with a revised expense projection for electricity. Specifically, in Attachment CA-IR-7, Part B to NSW's IR Responses, NSW's "Update of Test Year Expenses," NSW proposed a Test Year expense amount for electricity of $65,594, based on actual electricity costs through August 2007 and an estimate through the end of December 2007. In its Direct Testimony, the Consumer Advocate recommended a Test Year expense for electricity of $65,600. As such, for purposes of the Stipulation, the Parties have stipulated to a Test Year expense amount for electricity charges of $65,600. The commission finds this amount to be reasonable, since it

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28The Parties note that the difference in their proposed amounts is due to rounding. See Stipulation at 11 n.12.
appears that this figure is based on NSW's actual, updated electricity costs.

2.

Water Utility Charges

NSW initially proposed a Test Year expense amount for water utility charges of $10,000. However, in its Update of Test Year Expenses, in response to CA-IR-7, NSW proposed a Test Year expense amount for water utility costs of $7,731, based on actual water expenses incurred through August 2007 and an estimate through the end of December 2007. The Parties represent that the Consumer Advocate adopted NSW's revised Test Year expense for water "because the revised expense projection appears reasonable when considering the amount agreed to in Docket No. 04-0298 and recent actual experience."

As such, for purposes of the Stipulation, the Parties agreed to a Test Year expense amount for water utility charges of $7,731. The commission finds this amount to be reasonable, because it appears to be based on NSW's actual, updated water costs, and as stated by the Parties, it appears to be consistent with the expense amount agreed to in Docket No. 04-0298.

3.

Professional Fees for Aqua Engineers, Inc.

In its Application, NSW proposed a Test Year expense amount of $274,740 for its professional fees relating to services
provided by Aqua Engineers, Inc. ("Aqua"), the contractor that operates NSW's wastewater treatment facilities. In its Update of Test Year Expenses, NSW later proposed a Test Year expense amount for professional fees relating to Aqua of $274,622, based on actual expenses incurred through August 2007 and an estimate through the end of December 2007. In addition, the Parties state that NSW provided copies of the contract with Aqua to support a monthly service charge of $22,520 and a proposed annual increase of $750 that is expected to take effect on July 1, 2007; and based on this information, the Consumer Advocate adopted NSW's revised estimate of $274,622. As such, for purposes of the Stipulation, the Parties stipulated to a Test Year expense amount for professional fees for Aqua of $274,622. The commission finds this amount to be reasonable, given that it appears to be based on NSW's actual, updated professional fees for Aqua, and the contract with Aqua.

4. Chemicals

NSW initially proposed a Test Year expense amount for chemicals of $25,650. However, in its Update of Test Year Expenses, NSW proposed a Test Year expense amount for its chemicals of $10,974, based on actual expenses for chemicals incurred through August 2007 and an estimate through the end of December 2007. The Parties represent that the Consumer Advocate adopted NSW's revised estimate of $10,974 "because the revised expense appeared to be reasonable when considering the amount
agreed to in Docket No. 04-0298 and recent experience." As such, for purposes of the Stipulation, the Parties agreed to a Test Year expense amount for chemicals of $10,974. The commission finds this amount to be reasonable, because it appears to be based on NSW's actual, updated costs for chemicals, and as stated by the Parties, it appears to be consistent with the expense amount agreed to in Docket No. 04-0298.

5. **Insurance**

In its Application, NSW proposed a Test Year expense amount for insurance of $5,484. In its Update of Test Year Expenses, NSW's projection for insurance of $5,484 remained unchanged, based on the actual annual insurance expenses incurred through August 2007. The Consumer Advocate adopted NSW's expense projection in its Direct Testimony. As such, for purposes of the Stipulation, the Parties stipulated to a Test Year expense amount for insurance of $5,484, which the commission finds to be reasonable and adequately supported by the record in this case.

6. **Administrative and Billing Fees**

In its Application, NSW proposed a Test Year expense amount for administrative and billing services of $32,496. In its Update of Test Year Expenses, NSW proposed a Test Year

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30Id. at 13.

31See Exhibit CA-101 of CA-T-1.
expense amount for administrative and billing services fees of $31,276. Furthermore, in response to CA-IR-8, NSW provided a copy of the contract that supports the monthly administrative and billing service fees of $2,083 and $523. The Parties state that, based on the information provided, the Consumer Advocate adopted NSW’s revised estimate of $31,276. As such, for purposes of the Stipulation, the Parties stipulated to a Test Year expense amount for administrative and billing fees of $31,276. The commission finds this amount to be reasonable, and consistent with the contract provided in response to CA-IR-8.a.

7.

Repair and Maintenance - Equipment

In its Application, NSW proposed a Test Year expense amount for equipment repair and maintenance of $37,319. However, in its Update of Test Year Expenses, NSW proposed a Test Year expense amount for equipment repair and maintenance of $8,765, based on actual repair and maintenance expenses incurred through August 2007 and an estimate through the end of December 2007. The Parties represent that the Consumer Advocate adopted NSW’s revised estimate of $8,765 “since the projection appeared reasonable when considering recent actual experience.” As such, for purposes of the Stipulation, the Parties agreed to a

Administrative Fees ($2,083 x 12 = $24,996 or $25,000 rounded) + Billing Fees ($523 x 12 = $6,276) = $31,276. See Stipulation at 14 n.13.

See Attachment CA-IR-8.a to NSW’s IR Responses.

Stipulation at 15.
Test Year expense amount for equipment repair and maintenance of $8,765. The commission finds this amount to be reasonable, and consistent with NSW's actual recent expenses.

8.

**Amortization of CPCN Application**

NSW proposed a Test Year expense amount of $4,400 related to the amortized costs of obtaining its CPCN in Docket No. 04-0298. The Consumer Advocate did not object, or recommend any adjustments, to this amount in its Direct Testimony. As such, for purposes of the Stipulation, the Parties stipulated to a Test Year expense amount for amortization of NSW's CPCN Application of $4,400, which the commission finds to be reasonable.

9.

**Rate Case Amortization**

In its Application, NSW proposed a Test Year expense amount of $63,667 to reflect the annual amortization of its estimated rate case expenses. In its Direct Testimony, the Consumer Advocate proposed a Test Year expense amount for rate case amortization of $45,860. As explained in the Consumer Advocate's Direct Testimony, based on information provided in response to CA-IR-10, the Consumer Advocate determined that NSW's Test Year rate case expense was overstated for the following reasons:

\[^{3}\text{See Exhibit CA-106 of CA-T-1.}\]
1. The actual costs to process and file the Application, as provided in NSW's response to CA-IR-10, were lower than the estimated costs reflected in NSW 9-12;

2. It is not reasonable to include the estimated cost of $37,000 for the wastewater study in determining the Test Year rate case expense since such costs would be incurred outside of the 2007 Test Year;

3. The Consumer Advocate removed $1,000 of travel and reproduction costs, which NSW included for the discovery and settlement phases of the case, on the basis that the adjusted $30,000 is more than sufficient to cover the costs of responding to discovery questions posed by the Consumer Advocate, negotiating a settlement, and preparing a stipulation memorializing the settlement in light of the Consumer Advocate's limited issues in this proceeding; and

4. NSW included an estimate for the hearings and briefing phase, which are not expected to be incurred in this proceeding.36

The Parties explained how they settled the issue referred to in the Consumer Advocate’s second reason, stated above:

During settlement negotiations, [NSW] informed the Consumer Advocate and provided additional support showing that the $37,000 included as part of the rate case preparation expense related to the wastewater flow study that was performed in September 2006 and which formed the basis for the flow ratios that were utilized in the Settlement Agreement entered into with the Condo Associations to establish the historic level of wastewater flows used to set the variable rate for charges to customers in this test year. That wastewater flow study should not be confused with the study which

36See CA-T-1 at 9-10; Stipulation at 16.
[NSW], KRC and the Condo Associations agreed would be performed prior to the next rate case to obtain information on the amounts of water that are utilized for domestic and irrigation uses, the Condo Associations' occupancy rates, and other relevant data. Based on this clarification, the Consumer Advocate agreed to allow the inclusion of the $37,000 wastewater flow study costs as part of the rate case preparation expense."

The Parties state that NSW accepted the Consumer Advocate's remaining proposed adjustments, as set forth in CA-106 of CA-T-1. Based on the Parties' agreement to include the $37,000 wastewater flow study costs in the rate case preparation expense, the Consumer Advocate's total rate case expense increased from $137,581 to $174,581, and the annual amortization increased from $45,860 to $58,194. As such, for purposes of the Stipulation, the Parties agreed to a Test Year amount for rate case expense of $174,581, which results in an annual amortization Test Year amount of $58,194, based on a three-year amortization period. Based on the Consumer Advocate's adjustments, noted above, and the Parties' agreement on the wastewater study costs, the commission finds the Parties' stipulated amounts for NSW's rate case expense to be fair and reasonable.

10.

Operating Materials and Supplies

In its Update of Test Year Expenses, NSW proposed a Test Year expense amount for waste removal and materials and

3Stipulation at 17.
supplies amounting to $3,568.  The Parties state: "Given the dollar value of each of these expense projections in relation to the total test year O&M expense projections, and the impact of recognizing these expenses on the test year revenue requirement and resulting rates the Consumer Advocate adopted [NSW’s] operating materials and supplies expense projection of $3,538." The Parties further represented that, although there was a $30 discrepancy between NSW’s proposal and the Consumer Advocate’s proposal, NSW accepted the Consumer Advocate’s expense amount. As such, for purposes of the Stipulation, the Parties stipulated to a Test Year expense amount for operating materials and supplies of $3,538, which the commission finds to be a reasonable amount.

11.

Depreciation

In its Application, NSW proposed a Test Year expense amount for depreciation of $48,932. According to the Parties, the Consumer Advocate did not object, or recommend any adjustments, to this amount in its Direct Testimony, "since the amount is based on the same plant in service values, service lives, and excess capacity factor of 70 percent as was stipulated

\[\text{Waste Removal ($1,493) + Materials and Supplies ($2,075) = $3,568. See id. at 18 n.14.}\]

\[\text{Id. at 18.}\]

\[\text{See id.}\]

2006-0486 24
to in Docket No. 04-0298. As such, for purposes of the Stipulation, the Parties agreed to a Test Year expense amount for depreciation of $48,932. The commission finds this amount to be reasonable, and as stated by the Parties, consistent with the expense amounts agreed to in Docket No. 04-0298.

12.

Taxes

In its Application, NSW sought a Test Year amount for Taxes - Other Than Income ("TOTIT") of $47,595 at proposed rates. In its Direct Testimony, based on its proposed Test Year amounts, including its original adjustments, the Consumer Advocate sought a Test Year amount for TOTIT at proposed rates of $42,988. For income taxes, NSW initially proposed a Test Year amount of $47,009 at proposed rates. In its Direct Testimony, based on its proposed adjustments, the Consumer Advocate calculated income taxes of $46,738.

The Parties explain that there is no difference between NSW and the Consumer Advocate regarding the procedure or rates used to calculate the TOTIT or income taxes for the Test Year; rather, the difference in the TOTIT and income taxes expenses reflects the different revenue levels proposed by NSW and the Consumer Advocate. Thus, the Parties maintain that, as a result of the Stipulation that resolved all differences between them on the Test Year operating expense projections, the Parties agreed

\[41\text{Id.}\]

\[42\text{See id. at 19, 20.}\]
to a TOTIT of $48,839, and an income tax amount of $46,794 at stipulated proposed rates for the Test Year. These amounts appear to be consistent with the Parties' stipulated operating expenses, and therefore, the commission finds the Parties' agreed-upon amounts for TOTIT and income taxes to be reasonable.

D.
Rate Base

As set forth in Exhibits A and C attached to the Stipulation (and in Exhibits 1 and 2 attached hereto), the Parties stipulated to a Test Year average rate base of $863,790. In doing so, the Parties negotiated and came to a stipulated agreement on each of the following rate base components.

1.
Net Plant in Service

For the plant in service component of net plant in service, NSW's end-of-year 2006 plant in service amount was $8,891,912, and end-of-year 2007 plant in service amount was $8,891,912, resulting in an average Test Year plant in service amount of $8,891,912. In its Direct Testimony, the Consumer Advocate did not object, or recommend any adjustments, to this amount. As such, for purposes of the Stipulation, the

---

"Exhibit C of the Stipulation shows each of the rate base components at December 31, 2006 and December 31, 2007, which are averaged on Exhibit C, page 1, to result in the Test Year average rate base."
Parties agreed to a Test Year plant in service amount of $8,891,912.

For the accumulated depreciation component of net plant in service, NSW's end-of-year 2006 accumulated depreciation amount was $6,061,778, and end-of-year 2007 accumulated depreciation amount was $6,224,884, resulting in an average Test Year accumulated depreciation amount of $6,143,331. In its Direct Testimony, the Consumer Advocate did not object, or recommend any adjustments, to this amount. As such, for purposes of the Stipulation, the Parties agreed to a Test Year accumulated depreciation amount of $6,143,331.

Upon review, the commission finds both of the Parties' agreed-upon amounts for plant in service and accumulated depreciation to be reasonable.

2.

Advances in Aid of Construction

In its Application, NSW's end-of-year 2006 advances in aid of construction amount was $2,868,000, and end-of-year 2007 advances in aid of construction amount was $2,868,000, resulting in an average Test Year amount of $2,868,000. In its Direct Testimony, the Consumer Advocate did not object, or recommend any adjustments, to this amount. Therefore, for purposes of the Stipulation, the Parties stipulated to a Test Year advances in aid of construction amount of $2,868,000, which the commission finds is reasonable.
3. **Deferred Depreciation of Advances in Aid of Construction**

NSW's year end 2006 deferred depreciation of advances in aid of construction amount was $1,955,168, and year end 2007 deferred depreciation of advances in aid of construction amount was $2,007,776, resulting in an average Test Year deferred depreciation of advances in aid of construction amount of $1,981,472. The Consumer Advocate did not object, or recommend any adjustments, to this amount in its Direct Testimony. Accordingly, for purposes of the Stipulation, the Parties agreed to a Test Year deferred depreciation of advances in aid of construction amount of $1,981,472, which the commission finds is reasonable.

4. **Excess Capacity - Plant**

NSW's year end 2006, year end 2007, and therefore, average Test Year amounts for the excess capacity - plant component of NSW's rate base, were $3,356,338. According to the Parties, in its Direct Testimony, the Consumer Advocate did not object, or recommend any adjustments, to this amount "since the amount is based on the same 70 percent factor that was stipulated to in Docket No. 04-0298 and there is no new information available to demonstrate that the factor is not applicable in the instant docket." As such, for purposes of the Stipulation, the Parties agreed to a Test Year plant excess capacity amount of

"Stipulation at 23."
$3,356,338. The commission finds this amount to be reasonable, and as stated by the Parties, consistent with matters agreed upon in Docket No. 04-0298.

5.  

Excess Capacity – Accumulated Depreciation

In its Application, NSW’s year end 2006 accumulated depreciation excess capacity amount was $2,228,077, and year end 2007 amount was $2,349,643, resulting in an average Test Year accumulated depreciation excess capacity amount of $2,318,860. The Parties state that the Consumer Advocate did not object, or recommend any adjustments, to this amount in its Direct Testimony “for the same reason that the Consumer Advocate adopted the plant in service excess capacity adjustment.”45 Thus, for purposes of the Stipulation, the Parties stipulated to a Test Year accumulated depreciation excess capacity amount of $2,318,860. Similar to the commission’s decision above for plant excess capacity, the commission finds that this amount is reasonable.

6.  

Working Capital

In the Application, NSW proposed an average Test Year amount of $43,756 for working capital. In its Direct Testimony, the Consumer Advocate proposed a working capital amount of $38,188 based on its proposed adjustments. In doing so, the Consumer Advocate noted:

"Id. at 23-24."
The working cash projection is based on the test year expense projections. Since the Consumer Advocate is reflecting [NSW's] revised expense projections, and proposing adjustments to lower NSW's proposed rate case expense, there will be differing working cash projections simply due to the different test year expense projections. It should be noted that both parties used the same methodology for computing working cash.46

The Parties explain that, during settlement discussions, NSW accepted the Consumer Advocate's proposed adjustments, and the adjustment to rate case amortization for the wastewater flow study increased the working cash from $38,188 to $39,215. Thus, the Parties stipulated to an average Test Year working capital amount of $39,215. This amount appears reasonable, and consistent with the Parties' settlement on the Test Year operating expense projections.

E. Rate of Return

In its Application, NSW sought a return on rate base of 8.84%. In its Direct Testimony, the Consumer Advocate recommended a return on rate base of 8.85%. The Parties note, however, that "[t]he slight difference in the rate of return is due to rounding of the monthly charges to customers and was intended to be an 8.85% rate of return."47 For purposes of this rate case, the commission accepts as just and reasonable the Parties' stipulated 8.85% rate of return.

46CA-T-1 at 8.

47Stipulation at 25.
F.

Rate Design

The Parties state that, during settlement discussions, once the Parties settled on the expense and rate base items discussed above, they then focused their attention on an acceptable rate design to provide a reasonable opportunity for NSW to receive the Test Year revenue requirement of $686,595. The Parties' stipulated rate design is shown below.

Rate recovery for NSW's fixed charges and expenses:

<table>
<thead>
<tr>
<th></th>
<th>Monthly Rate Per EU</th>
<th>Monthly Charge for Total EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel</td>
<td>$23.09</td>
<td>$10,390.50</td>
</tr>
<tr>
<td>Commercial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restaurant</td>
<td>$23.09</td>
<td>$1,847.20</td>
</tr>
<tr>
<td>Bar</td>
<td>$23.09</td>
<td>$461.80</td>
</tr>
<tr>
<td>Snack Bar and Golf Course</td>
<td>$23.09</td>
<td>$230.90</td>
</tr>
<tr>
<td>KEE</td>
<td>$23.09</td>
<td>$4,987.44</td>
</tr>
<tr>
<td>KEW</td>
<td>$23.09</td>
<td>$5,818.68</td>
</tr>
<tr>
<td>OV</td>
<td>$23.09</td>
<td>$2,401.36</td>
</tr>
</tbody>
</table>

48The commercial establishments consist of four restaurants, two bars, and a snack bar at the beach and the golf course locker room. The Parties note that, for billing purposes, each establishment will be assessed the $23.09 rate on the following EUs: 20 EUs for the restaurant, 10 EUs for the bar, and 5 EUs for the snack bar at the beach and the golf course locker room. See id. at 26 n.22.
Rate recovery for NSW’s variable charges and expenses:

<table>
<thead>
<tr>
<th></th>
<th>Variable Monthly Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel and Other Commercial Entities</td>
<td>$20,820.89</td>
</tr>
<tr>
<td>KEE</td>
<td>$3,729.12</td>
</tr>
<tr>
<td>KEW</td>
<td>$6,215.19</td>
</tr>
<tr>
<td>OV</td>
<td>$310.76</td>
</tr>
</tbody>
</table>

The Parties note, though, that based on the Settlement Agreement reached between NSW, KRC, and the Condo Associations, discussed further below, KEE, KEW, and OV will pay rates that are different from that set forth above, with KRC making up the revenue shortfall resulting from the assessment of the lower rates. If the settlement agreement with the Condo Associations and KRC was not in place, the Condo Associations would pay the rates listed above.

Pursuant to the Settlement Agreement, the Condo Associations agreed to pay NSW $193,089 in the aggregate per year for wastewater service, with payments to be made monthly to NSW. Specifically, under the Settlement Agreement:

1. KEW agreed to pay NSW $99,993.00 on an annual basis. Due to rounding of the monthly charge, the actual amount will be based on $41.67 per month for each of

49Id. at 26.

50As set forth above, according to the Parties, a key factor in establishing the settlement amount were the results of an interim wastewater flow study performed in September and October 2006 that established the wastewater generated by the Condo Associations in relation to the rest of the Turtle Bay Resort. See id. at 28.
KEW's 200 units for a monthly total of $8,334.00 ($100,008.00 yearly);

2. KEE agreed to pay NSW $71,653.00 on an annual basis. Due to rounding of the monthly charge, the actual amount will be based on $35.54 per month for each of KEE's 168 units for a monthly total of $5,970.72 ($71,648.64 yearly);

3. OV agreed to pay NSW $21,443.00 on an annual basis. Due to rounding of the monthly charge, the actual amount will be based on $31.35 per month for each of OV's 57 units for a total of $1,786.95 ($21,443.40 yearly).

4. Based on the "retail" rates that are finally approved by the commission, KRC will pay NSW the difference between the amounts paid by the Condo Associations pursuant to the Settlement Agreement, and the rates established by the commission in this proceeding; and

5. The rates paid by the Condo Associations and the resulting subsidy paid by KRC will remain in effect until NSW's next rate case is filed and the commission approves new rates in that case. 

In accordance with the fourth factor above, the Parties state that KRC will pay NSW an annual amount of $88,474 based on a total revenue requirement for the Condo Associations of $281,563, and the annual settlement revenue level of $193,089. The Parties also represent that this annual amount shall be paid monthly to NSW in the amount of $7,372.83 until new rates are established by the commission in NSW's next rate case.

The Consumer Advocate does not oppose the rates that will be charged to the Condo Associations pursuant to the Settlement Agreement. According to the Parties, "[t]his is

5See id. at 28-29.
because under the terms of the Settlement Agreement, KRC will make up the 'shortfall' in revenues through its subsidy, thereby not affecting the remaining customers with higher rates.\textsuperscript{52}

Upon review, the commission finds the Parties' stipulated rate design, including the rate agreements reached between NSW, KRC, and the Condo Associations in the Settlement Agreement, to be just and reasonable for purposes of this rate case. The following factors, as noted by the Consumer Advocate in its Direct Testimony, support this conclusion:

- Sixty percent of the proposed revenues are expected to be derived from entities that are owned by KRC;
- The allocation reached in the Settlement Agreement with the Condo Associations was based on the results of the independent wastewater flow study;
- The settlement revenue requirement of $585,120 is below the Consumer Advocate's recommended revenue requirement of $682,430. Thus, it appears that the Settlement Agreement sufficiently protects the customers in the condominiums from being assessed rates based on an overstated revenue requirement;
- Although the Condo Associations agreed-upon rates are based upon a lower revenue requirement, NSW's remaining customers (i.e, the Resort facilities) will not be charged higher rates since KRC will make NSW whole for any revenue shortfall that may result from the Settlement Agreement; and
- Since NSW has not been able to charge for the wastewater service provided

\textsuperscript{52}Id. at 29; see also CA-T-1 at 11-12.
since receiving its CPCN in 2005, NSW has not been able to generate operating revenues. Thus, NSW should be entitled to rate relief under the expedited process contemplated by HRS § 269-16(f).

Accordingly, based on the foregoing, the commission finds and concludes that the agreed-upon rates should be approved.

G.

APCAC

In response to NSW's request for an APCAC in its Application, the Consumer Advocate did not object, nor recommend any changes, to the methodology proposed by NSW. As such, the Parties request that the commission approve the establishment of the APCAC, as set forth in the Application.

Upon review, the commission finds reasonable NSW's proposal to establish an APCAC, including the proposed methodology. In this regard, the commission notes that it has

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53 See CA-T-1 at 11-13.
54 See Exhibit NSW 11; NSW-T-100 at 32 - 33.
55 The Parties further noted their position that Act 162, 2006 Session Laws of Hawaii (codified in HRS § 269-16(g)), relating to automatic fuel rate adjustment clauses, is not applicable to wastewater facilities and operations such as NSW's, nor to NSW's proposed APCAC in this docket. See Stipulation at 27. The commission has found as such in In re Puhi Sewer & Water Co., Inc., Docket No. 2006-0423, Decision and Order No. 23412, filed on May 3, 2007 (adopting Proposed Decision and Order No. 23376, filed on April 20, 2007) ("Puhi Sewer"); see also In re Laie Water Company, Inc., Docket No. 2006-0502, Decision and Order No. 23554, filed on July 20, 2007 (adopting Proposed Decision and Order No. 23522, filed on June 29, 2007).
previously approved the establishment of power cost adjustment clauses by small wastewater utilities.56

III.

Summary of Findings and Conclusions

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

In sum, the commission finds and concludes:

1. The operating revenues and expenses for the Test Year, as set forth in Exhibit 1, attached, are reasonable.
2. NSW's average Test Year rate base, as set forth in Exhibit 2, attached, is reasonable.
3. NSW's rate of return of 8.85% is fair.
4. NSW is entitled to: (1) an increase in revenues of $664,515; and (2) total operating revenues of $686,595.

56See, e.g., Puhi Sewer; In re Manele Water Resources, LLC, Docket No. 2006-0166, Proposed Decision and Order No. 23250, filed on February 7, 2007; and Decision and Order No. 23295, filed on March 13, 2007; In re Pukalani STP Co., Ltd., Docket No. 05-0025, Proposed Decision and Order No. 22015, filed on September 7, 2005; and Decision and Order No. 22052, filed on September 28, 2005.
5. The Parties' stipulated rate design, and the agreed-upon rates for the Condo Associations set forth in the Settlement Agreement, are reasonable.

6. NSW's proposal to establish and implement an APCAC is reasonable.

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:

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).

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;

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This deadline is consistent with the deadline to move for reconsideration of a commission decision or order. See HAR § 6-61-137.
provided that the [P]arties 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 March 21, 2008. *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 $2 million. Consistent thereto, the
commission has completed its review and timely issues this
Proposed Decision and Order. Nonetheless, the commission makes
it clear that if it is required to issue a Decision and Order due
to the non-acceptance of the Proposed Decision and Order by one
or both of the Parties, the commission is free to review anew the
entire docket and all issues therein.

V.

Orders

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

2. NSW may increase its rates to produce a total
annual revenue increase of $664,515, as shown on the attached
Exhibit 1, representing an increase in NSW’s revenue requirement
to $686,595.

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

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

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

7. The failure to comply with any of the requirements noted in the ordering paragraphs above may constitute cause to void this Proposed Decision and Order, and may result in further regulatory action as authorized by State law.
DONE at Honolulu, Hawaii __________ DEC 20 2007 __________.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAI'I

By ____________________________
Carlito P. Caliboso, Chairman

By ____________________________
John E. Cole, Commissioner

By ____________________________
Leslie H. Kondo, Commissioner

APPROVED AS TO FORM:

Kaiulani Kidani Shinsato
Commission Counsel

2006-0486.oh

2006-0486  40
DOCKET NO. 06-0486  
NORTH SHORE WASTEWATER TREATMENT  
RESULTS OF OPERATIONS  
TEST YEAR ENDED DECEMBER 31, 2007

<table>
<thead>
<tr>
<th>Present Rates</th>
<th>Additional Amount</th>
<th>Proposed Rates</th>
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<tbody>
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<td></td>
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<tr>
<td><strong>REVENUES</strong></td>
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<td>Hotel</td>
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<td>$ 348,441</td>
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<tr>
<td>Condos</td>
<td>22,080</td>
<td>259,483</td>
</tr>
<tr>
<td>Other</td>
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<td>56,585</td>
</tr>
<tr>
<td>Total Operating Revenues</td>
<td>22,080</td>
<td>664,509</td>
</tr>
</tbody>
</table>

| **OPERATING & MAINT. EXPENSES** |                   |                |
| Electricity     | 65,600            | 65,600         |                |
| Water           | 7,731             | 7,731          |                |
| Pro Fees (Aqua Eng) | 274,622      | 274,622        |                |
| Chemicals       | 10,974            | 10,974         |                |
| Insurance       | 5,484             | 5,484          |                |
| Admin Fees      | 31,276            | 31,276         |                |
| Repair Maint. Equip. | 8,765       | 8,765          |                |
| Amort. App. CPCN | 4,400            | 4,400          |                |
| Rate Case Amort. | 58,194          | 58,194         |                |
| Total O & M Expenses | 470,584 | -             | 470,584        |
| Depreciation    | 48,932            | -              | 48,932         |
| TOTIT           | 1,410             | 42,429         | 43,839         |
| Income Taxes    | (189,411)         | 236,203        | 46,792         |
| Net Operating Expense | (139,069) | 278,632       | 139,563        |

<p>| <strong>Net Operating Income (Loss)</strong> | $ (309,435) | $ 385,877 | $ 76,442 |
| <strong>Average Rate Base</strong> | $ 863,790 | $ 863,790 |
| <strong>Return on Rate Base</strong> | -35.82% | 8.85% |</p>
<table>
<thead>
<tr>
<th>Tax</th>
<th>Present Rates</th>
<th>Additional Amount</th>
<th>Proposed Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Operating Revenues</td>
<td>22,080</td>
<td>664,509</td>
<td>686,589</td>
</tr>
<tr>
<td>Public Company Service Tax</td>
<td>1,299</td>
<td>39,106</td>
<td>40,406</td>
</tr>
<tr>
<td>5.885%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Utility Fee</td>
<td>110</td>
<td>3,323</td>
<td>3,433</td>
</tr>
<tr>
<td>0.500%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenue Taxes</td>
<td>1,410</td>
<td>42,429</td>
<td>43,839</td>
</tr>
<tr>
<td>6.385%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
DOCKET NO. 06-0486
NORTH SHORE WASTEWATER TREATMENT
INCOME TAX EXPENSE
TEST YEAR ENDED DECEMBER 31, 2007

<table>
<thead>
<tr>
<th>Present Rates</th>
<th>Interim Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
</tr>
<tr>
<td>Hotel</td>
<td>$ -</td>
</tr>
<tr>
<td>Condos</td>
<td>22,080</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td>22,080</td>
</tr>
<tr>
<td><strong>OPERATING &amp; MAINT. EXPENSES</strong></td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td>65,600</td>
</tr>
<tr>
<td>Water</td>
<td>7,731</td>
</tr>
<tr>
<td>Pro Fees (Aqua Eng)</td>
<td>274,622</td>
</tr>
<tr>
<td>Chemicals</td>
<td>10,974</td>
</tr>
<tr>
<td>Insurance</td>
<td>5,484</td>
</tr>
<tr>
<td>Admin Fees</td>
<td>31,276</td>
</tr>
<tr>
<td>Repair Maint. Equip.</td>
<td>8,765</td>
</tr>
<tr>
<td>Amort. App. CPCN</td>
<td>4,400</td>
</tr>
<tr>
<td>Rate Case Amort.</td>
<td>58,194</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>48,932</td>
</tr>
<tr>
<td><strong>TOTIT</strong></td>
<td>1,410</td>
</tr>
<tr>
<td><strong>Total O &amp; M Expenses</strong></td>
<td>520,926</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>(498,846)</td>
</tr>
<tr>
<td>Income Tax Provision</td>
<td>37.9699%</td>
</tr>
<tr>
<td>Effective tax rate of</td>
<td></td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>$ (189,411)</td>
</tr>
</tbody>
</table>
### NORTH SHORE WASTEWATER TREATMENT
### AVERAGE RATE BASE
### TEST YEAR ENDED DECEMBER 31, 2007

<table>
<thead>
<tr>
<th>Description</th>
<th>At 12/31/2006</th>
<th>At 12/31/2007</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant in Service</td>
<td>8,891,912</td>
<td>8,891,912</td>
<td></td>
</tr>
<tr>
<td>Accum. Depreciation</td>
<td>6,061,778</td>
<td>6,224,884</td>
<td></td>
</tr>
<tr>
<td><strong>Net-Plant-in-Service</strong></td>
<td>2,830,134</td>
<td>2,667,028</td>
<td>2,748,581</td>
</tr>
<tr>
<td><strong>Rate Base Components</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AIAC</td>
<td>(2,868,000)</td>
<td>(2,868,000)</td>
<td></td>
</tr>
<tr>
<td>Deferred Depreciation on AIAC</td>
<td>1,955,168</td>
<td>2,007,776</td>
<td></td>
</tr>
<tr>
<td>Excess Capacity - Plant</td>
<td>(3,356,338)</td>
<td>(3,356,338)</td>
<td></td>
</tr>
<tr>
<td>Excess Capacity - Accum Depr.</td>
<td>2,288,077</td>
<td>2,349,643</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>(1,981,093)</td>
<td>(1,866,919)</td>
<td>(1,924,006)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>849,041</td>
<td>800,109</td>
<td>824,575</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td>824,575</td>
</tr>
<tr>
<td>Working Cash at Present Rates</td>
<td></td>
<td></td>
<td>39,215</td>
</tr>
<tr>
<td>Rate Base at Present and Proposed Rates</td>
<td></td>
<td></td>
<td>863,790</td>
</tr>
</tbody>
</table>

Exhibit 2
Page 1 of 2
## Operating Expenses

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>$65,600</td>
</tr>
<tr>
<td>Water</td>
<td>7,731</td>
</tr>
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<td>274,622</td>
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<tr>
<td>Amort. App. CPCN</td>
<td>4,400</td>
</tr>
<tr>
<td>Rate Case Amort.</td>
<td>58,194</td>
</tr>
<tr>
<td>Op. Materials &amp; Supplies</td>
<td>3,538</td>
</tr>
<tr>
<td>Total O &amp; M</td>
<td>470,584</td>
</tr>
</tbody>
</table>

Number of months in a year  

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Cash</td>
<td>$39,215</td>
</tr>
</tbody>
</table>

Exhibit 2  
Page 2 of 2
CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Proposed Decision and Order No. 23916 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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

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KRIS N. NAKAGAWA, ESQ.
RHONDA L. CHING, ESQ.
MORIHARA LAU & FONG LLP
Davies Pacific Center
841 Bishop Street, Suite 400
Honolulu, HI  96813
Counsel for Applicant
NORTH SHORE WASTEWATER TREATMENT, L.L.C.

MR. RALPH MAKAIAU
NORTH SHORE WASTEWATER TREATMENT, L.L.C.
57-091 Kamehameha Highway
Kahuku, HI  96731

Karen Higashi

DATED:  DEC 20 2007