

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application of)  
KUKIO UTILITY COMPANY, LLC )  
For Review and Approval of Rate )  
Increases and Revised Rate )  
Schedules. )  
\_\_\_\_\_ )

DOCKET NO. 2007-0198

PROPOSED DECISION AND ORDER NO. 23975

Filed Jan. 18, 2008  
At 2 o'clock P.M.

Karen Higashi  
Chief Clerk of the Commission

ATTEST: A True Copy  
KAREN HIGASHI  
Chief Clerk, Public Utilities  
Commission, State of Hawaii.

Karen Higashi

DIV. OF CONSUMER ADVOCACY  
CENTRAL RECORDS AND  
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SERVICES DIVISION

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In the Matter of the Application of)	)	
KUKIO UTILITY COMPANY, LLC	)	Docket No. 2007-0198
	)	
For Review and Approval of Rate	)	Proposed Decision
Increases and Revised Rate	)	
Schedules.	)	and Order No. 23975
_____	)	

PROPOSED DECISION AND ORDER

By this Proposed Decision and Order, the commission approves a rate increase of \$232,341 or 10.71% over revenues at present rates for KUKIO UTILITY COMPANY, LLC's ("Kukio") water operations for the test year ending December 31, 2008 ("Test Year"). Also, for Kukio's sewer operations, the commission approves an overall decrease of \$28,030 or 3.23% in Test Year revenues at present rates. In doing so, the commission approves the Stipulation of Settlement Agreement In Lieu of Rebuttal Testimonies ("Stipulation"), jointly filed by Kukio and the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate")<sup>1</sup> on December 27, 2007.

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<sup>1</sup>The Consumer Advocate is an ex officio party to this proceeding, pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62(a). Kukio and the Consumer Advocate are collectively referred to as the "Parties."

I.

Background

A.

Kukio

Kukio is a public utility that provides water and wastewater utility services, including the gathering, storage, transmission, distribution, processing, and other provision and elimination of water, within its authorized service area on the island of Hawaii.<sup>2</sup> Kukio provides water and sewer services to portions of a master planned community known as the Kukio Beach Club, and a residential development called Manini'owali in North Kona, on the island of Hawaii.<sup>3</sup> Kukio also provides water services to the restroom at Kua Bay Beach Park (aka, the Kekaha Kai State Park) and for the park's initial landscaping needs.<sup>4</sup> It also supplies untreated bulk water on an interruptible basis to the Kukio Golf & Beach Club for irrigation purposes.<sup>5</sup>

In 2007, Kukio obtained commission approval to expand its service territory to provide water service (only) to the Kukio Mauka subdivision and the adjacent Stroud subdivision.<sup>6</sup>

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<sup>2</sup>Kukio was granted a certificate of public convenience and necessity ("CPCN") in Decision and Order No. 20103, filed on March 23, 2003, as amended by Order No. 20688, filed on November 26, 2003, in Docket No. 01-0433.

<sup>3</sup>See Application, at 3.

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

<sup>5</sup>See Application, at 3-4 (citing Decision and Order No. 21836, filed on May 25, 2005, in Docket No. 04-0137).

<sup>6</sup>See Application, at 4 (citing Decision and Order No. 23492, filed on June 14, 2007, in Docket No. 2006-0414).

B.

Application

On July 20, 2007, Kukio filed an Application<sup>7</sup> requesting approval of rate increases and revised rate schedules and rules. Kukio states that the current rates do not and will not produce sufficient revenues to allow it to earn a fair rate of return on its prudently incurred investment.<sup>8</sup> Thus, Kukio seeks: 1) to implement compensatory rates which will replace its existing, initial rates approved by the commission in Decision and Order No. 20103 that are not compensatory and were based on a "zone of reasonableness;"<sup>9</sup> 2) to address the concerns of the Consumer Advocate and the commission expressed in Decision and Order No. 20103 in connection with determining the exact costs that should be included in rate base as to facilities that were or are to be transferred to Kukio from its parent and sole member, WB Kukio Resorts, LLC ("WB Kukio"), as compared to those costs that are being recovered through contributions-in-aid-of-construction ("CIAC"), and 3) to establish new rates for both its water and sewer services based on actual experience since 2003 for its existing and new customers.<sup>10</sup>

Specifically, for its water operations, Kukio requests commission approval of a general rate increase of approximately

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<sup>7</sup>Kukio's Application, Exhibits KUC 1 & 2, KW 3 through 10, KS 3 through 10, KUC T-100 through 200, Verification, and Certificate of Service, filed on July 20, 2007 (collectively, "Application").

<sup>8</sup>See Application, at Exhibit KUC-T-100, page 14.

<sup>9</sup>See Application, at Exhibit KUC-T-100, page 16.

<sup>10</sup>Application, at 6.

\$238,603, or an approximate 11.0% increase from the pro forma revenue amount of \$2,170,266 at present rates for the Test Year.<sup>11</sup> If approved, Kukio would be provided an 8.85% rate of return for water services.<sup>12</sup> Regarding its wastewater operations, Kukio requests commission approval of a general rate increase of approximately \$65,888, or an approximate 7.6% increase, from the pro forma revenue amount of \$863,122 at present rates for the Test Year.<sup>13</sup> If approved, Kukio would be provided an 8.85% rate of return.<sup>14</sup>

Kukio's present and proposed rates are as follows:

**Monthly Water Meter Charges:**

Meter Size/ Service	Present Rate (monthly charge/meter)	Proposed Rate (monthly charge/meter)	Percent Increase
3/4" (commercial)	\$11.50	\$12.80	11.3%
5/8" (residential)	\$11.50	\$12.80	11.3%
1" (residential/commercial)	\$11.50	\$12.80	11.3%
1 1/2" (commercial)	\$30.00	\$33.30	11.0%
2" (commercial)	\$30.00	\$33.30	11.0%

**Monthly Water Consumption Charge - Rate/Gallons:**

Block/Definition (gallons/month/meter)	Present Rate Rate/1000 gal.	Proposed Rate Rate/1000 gal.	Percent Increase
Block I (0- 29,999)	\$4.75	\$5.273	11.0%
Block II (30,000- 74,999)	\$6.75	\$7.493	11.0%
Block III (75,000- above)	\$8.75	\$9.713	11.0%
Monthly Bulk Interruptible Users	\$2.3069	Cost* + 20%	

\* Cost of production and delivery of water

<sup>11</sup>See Application, at 5.

<sup>12</sup>See Application, at 5.

<sup>13</sup>See Application, at 5.

<sup>14</sup>See Application, at 5.

**Monthly Sewer Stand-By Charges**

Type of Service	Present Rate (per month)	Proposed Rate (per month)	Percent Increase
Residential	\$50.00 per dwelling unit	\$60.00 per dwelling unit	20%
Commercial	\$50.00 per toilet	\$60.00 per toilet	20%

**Monthly Sewer Quantity Charge - Rate/Gallons\***

Type of Service	Present Rate Rate/1000 gal.	Proposed Rate Rate/1000 gal.	Percent Increase **
Residential and Commercial	\$3.50	\$4.201	20%

\* Per thousand gallons of domestic water consumption.

\*\*The actual average percent increase will be less (to approximately 7.6%) since the Application proposes a new base for the existing PCAF charge.

In addition, Kukio seeks approval to establish an Automatic Power Cost Adjustment Factor ("PCAF") for its water service to allow it to increase or decrease its rates based on any corresponding increase or decrease in its cost for electricity, and to revise the existing PCAF formula pertaining to its sewer service.<sup>15</sup>

Furthermore, Kukio requested, pursuant to HAR § 6-61-92, that its unaudited financial statements, submitted with its Application, be accepted in lieu of audited financial statements as required under HAR § 6-61-75(b)(1).<sup>16</sup>

Kukio served copies of its Application on the Consumer Advocate. The Consumer Advocate did not object to the

<sup>15</sup>See Application, at 12.

<sup>16</sup>See Application, at 9-12. By Order No. 23716, filed on October 12, 2007, the commission waived the requirement of audited financial reports.

completeness of LWC's Application.<sup>17</sup> Hence, the filing date of Kukio's complete Application is July 20, 2007, consistent with HRS §§ 269-16(d) and (f)(3).<sup>18</sup>

C.

Public Hearing Process

The commission's Notice of Public Hearing was published statewide in various newspapers, in accordance with HRS §§ 1-28.5, 269-12(c), and 269-16(b).<sup>19</sup> On September 6, 2007, Kukio notified its ratepayers of the date, time, and location of the upcoming public hearing, in accordance with HRS § 269-12(c).<sup>20</sup>

On October 11, 2007, the commission held a public hearing on Kukio's Application, at the Kealahou Intermediate School cafeteria in Kailua-Kona, Hawaii, pursuant to HRS §§ 269-12(c) and 269-16(f)(2). At the public hearing,

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<sup>17</sup>See Consumer Advocate's Statement of Position Regarding Completeness of Application, filed on August 9, 2007, in accordance with HRS § 269-16(d).

<sup>18</sup>See Order No. 23716, filed on October 12, 2007.

<sup>19</sup>Specifically, the commission's Notice of Public Hearing was published on September 20 and 27, October 4 and 9, 2007, in The Garden Island, Hawaii Tribune-Herald, Honolulu Star-Bulletin, The Maui News, and West Hawaii Today. On October 11, 2007, the Honolulu Star-Bulletin filed an Affidavit of Publication for September 20, 2007, September 27, 2007, October 4, 2007, and October 9, 2007. On October 12, 2007, the West Hawaii Today newspaper filed an Affidavit of Publication for September 20, 2007, September 27, 2007, October 4, 2007, and October 9, 2007. On October 17, 2007, the Maui News newspaper filed an Affidavit of Publication for September 20, 2007, September 27, 2007, October 4, 2007, and October 9, 2007. On October 19, 2007, the Hawaii Tribune-Herald newspaper filed an Affidavit of Publication for September 20, 2007, September 27, 2007, October 4, 2007, and October 9, 2007. On October 19, 2007, the Garden Island newspaper filed an Affidavit of Publication for September 20, 2007, September 27, 2007, October 4, 2007, and October 9, 2007.

<sup>20</sup>See Kukio's letter, dated October 4, 2007, with a copy of the notice enclosed.

Kevin Hinkle, the Chief Financial Officer for WB Kukio, and the Consumer Advocate orally testified and submitted written comments.<sup>21</sup>

On October 25, 2007, the transcript of proceedings for the public hearing held on October 11, 2007 was filed.

D.

Stipulated Issues

As set forth in Order No. 23927, filed on December 24, 2007, the underlying issue is whether Kukio's proposed increases in its rates and charges are reasonable. This issue, in turn, involves the determination of the following sub-issues:

1. Is Kukio's proposed rate increase reasonable?
  - a. Are the proposed tariffs, rates and charges just and reasonable?
  - b. Are the revenue forecasts for Test Year ending December 31, 2008 ("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?

Order No. 23927, filed on December 24, 2007.

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<sup>21</sup>Rick Fluegel, a homeowner, also testified at the public hearing. In general, his comments expressed a concern of the rates being high, as well as the possibility of the utility being sold in the near future and the potential of that triggering another rate increase. He did not disagree with issues proposed in Kukio's Application.

E.

Discovery

On November 21, 2007, the Consumer Advocate submitted Information Requests ("IRs") to Kukio, CA-IR-1 to 53 (which had been informally provided to Kukio on October 4, 2007, November 5 and 9, 2007). On November 21, 2007, Kukio submitted responses to CA-IR-1 to 46 (including confidential information); CA-IR-47 to 50, and CA-IR-51 to 53.

Upon completion of the discovery process, the Consumer Advocate, on November 30, 2007, filed its Direct Testimony. Following Kukio's review of the Consumer Advocate's filing, the Parties engaged in settlement discussions.

F.

Stipulation

On December 27, 2007, the Parties submitted the Stipulation of Settlement Agreement in Lieu of Rebuttal Testimonies; Exhibits KW - A to KW - C and KS - A to KS - C; Attachment 1; and Certificate of Service.

II.

Discussion

HRS § 269-16(f) states in relevant part:

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

reasonableness of the proposed rates, the commission shall:

. . . . .

- (2) Hold a public hearing as prescribed in section 269-12(c) at which the consumers or patrons of the public utility may present testimony to the commission concerning the increase. The public hearing shall be preceded by proper notice, as prescribed in section 269-12; and
- (3) Make every effort to complete its deliberations and issue a proposed decision and order within six months from the date the public utility files a completed application with the commission; provided that all parties to the proceeding strictly comply with the procedural schedule established by the commission and no person is permitted to intervene. If a proposed decision and order is rendered after the six-month period, the commission shall report in writing the reasons therefor[e] to the legislature within thirty days after rendering the proposed decision and order. Prior to the issuance of the commission's proposed decision and order, the parties shall not be entitled to a contested case hearing.

If all parties to the proceeding accept the proposed decision and order, the parties shall not be entitled to a contested case hearing, and section 269-15.5 shall not apply. If the commission permits a person to intervene, the six-month period shall not apply and the commission shall make every effort to complete its deliberations and issue its decision within the nine-month period from the date the public utility's completed application was filed, pursuant to subsections (b), (c), and (d).

If a party does not accept the proposed decision and order, either in whole or in part, that party shall give notice of its objection or nonacceptance within the timeframe prescribed by the commission in the proposed decision and order, setting forth the basis for its objection or nonacceptance; provided

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

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

HRS § 269-16(f).

Kukio is a public utility with annual gross operating revenues of less than \$2 million. As such, Kukio filed its Application pursuant to HAR § 6-61-88 (Requirements for General Rate Increase Applications by a Public Utility with Annual Gross Operating Revenues of Less than \$2,000,000) and HRS § 269-16, specifically, subsection (f).

Kukio and the Consumer Advocate are the only parties in this proceeding; there are no intervenors. Accordingly, the commission must make every effort to issue its Proposed Decision and Order within six months from the filing date of

Kukio's completed Application, "provided that all parties to the proceeding strictly comply with the procedural schedule established by the commission and no person is permitted to intervene."<sup>22</sup>

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

A.

Parties' Stipulation

1.

Terms and Conditions

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

WHEREAS the Parties agree that this Stipulation shall be in lieu of Kukio filing Rebuttal Testimonies to the Consumer Advocate's Direct Testimony and Exhibits, filed on November 30, 2007, and any further discovery amongst the Parties; and

WHEREAS, the Parties understand and acknowledge that the [c]ommission is not bound by this Stipulation between the Parties, and that this Stipulation is subject to the review and approval of the [c]ommission.

....

The Parties have agreed that that following provisions of this Stipulation are binding between them with respect to the resolution of the specific issues and matters previously of disagreement in the subject docket. In all respects, it is understood and agreed that the agreements evidenced in this Stipulation represent the Parties' agreement to fully and finally resolve all issues in

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<sup>22</sup>HRS § 269-16(f)(3).

the subject docket on which they had previously had differences for the purpose of simplifying and expediting this proceeding.

See Stipulation, at 1-2 and 6-7. The Parties acknowledge that the Stipulation is subject to the commission's review and approval, and that the commission is not bound by the Stipulation.

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

## 2.

### Summary of the Stipulation

Exhibits KW - A, KW - B, and KW - C, attached to the Stipulation show Kukio's revenue requirement, expenses, customer usage information, rate base, and summary results of water operations resulting from the Stipulation. In particular, for water operations, the Parties agreed to a revenue requirement of \$2,402,607, representing a total revenue increase of \$232,341 over revenues at present rates, or approximately 10.71%.<sup>23</sup>

Exhibits KS - A, KS - B, and KS - C, attached to the Stipulation show Kukio's revenue requirement, expenses, customer

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<sup>23</sup>See Stipulation, at 22.

usage information, rate base, and summary results of sewer operations resulting from the Stipulation. In particular, for sewer operations, the Parties agreed to a revenue requirement of \$840,992, representing a total revenue decrease of \$28,030 over revenues at present rates, or an approximate 3.23% reduction.<sup>24</sup>

The Parties have agreed to a return on rate base of 8.85%.<sup>25</sup>

B.

Water Operations

1.

Operating Revenues

In Kukio's Application, Exhibits KW 6, (line 7, column 4), Kukio originally sought a Test Year revenue requirement of \$2,408,869.<sup>26</sup> In its Direct Testimony, the Consumer Advocate proposed a Test Year revenue requirement amount of \$2,402,607.<sup>27</sup>

For water operations, Kukio has accepted the Consumer Advocate's Test Year revenue requirement amount (line 8, column 3) [consisting of \$1,895,380 in total operating expenses, depreciation and taxes (line 29, column 3) plus \$507,227 in operating income after income taxes (line 30, column 3), based on

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<sup>24</sup>See Stipulation, at 41-42.

<sup>25</sup>See Stipulation, at 21 and 41, Exhibit KW - A, page 1, (line 32, column 3), and Exhibit KS - A, page 1, (line 34, column 3).

<sup>26</sup>See Stipulation, at 7, and Exhibit KW 6 of the Application, (line 7, column 4).

<sup>27</sup>See Consumer Advocate's Direct Testimony, at CA-101.

an 8.85% stipulated rate of return on the stipulated average rate base amount of \$5,731,375 (lines 32 and 31, respectively), column 3].<sup>28</sup> The result is a revenue increase of \$232,341, or approximately 10.71% from revenues at present rates for water operations.<sup>29</sup>

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

## 2.

### Operating Expenses

Kukio was granted its CPCN in 2003, and that was its first rate filing. As the Consumer Advocate states, "[y]ears 2003, 2004 and 2005 to a lesser degree were, therefore, viewed as 'start up' years, resulting in fluctuations in the historical level of expenditures in each of those years."<sup>30</sup> Since the company is still in its build-out period, the more stable years of 2006 and 2007 to-date should be used when analyzing the major expenses incurred.<sup>31</sup>

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<sup>28</sup>See Stipulation, at 7, and Exhibit KW - A.

<sup>29</sup>See Stipulation, at 8.

<sup>30</sup>See Direct Testimony, at CA-T-1, page 17.

<sup>31</sup>Kukio did not file separate financial reports for year 2004 (only consolidated financial statements), thus, an average of 2005 and 2006 will be utilized instead of a three-year average.

As set forth in Exhibit KW - A, attached to the Stipulation, the Parties have agreed upon an amount of \$1,431,490 for Kukio's Test Year total operating and maintenance ("O&M") expenses and depreciation expense at present and proposed rates, respectively.<sup>32</sup> In doing so, the Consumer Advocate made certain adjustments to Kukio's proposed O&M expense items for various reasons detailed in its Direct Testimony.<sup>33</sup>

A discussion of each of Kukio's O&M expense items, the additional information and analyses provided by Kukio 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, follows below.

The Parties agree on the following operations and maintenance expense amounts for the test year:<sup>34</sup>

<u>Operations/Maintenance</u>	<u>Parties' Agreement</u>	<u>Kukio's Estimate</u>	<u>CA's Estimate</u>
Electricity	\$789,819	x	No objection
Operations Contractor Fees*	\$297,146	x	No objection
System Repair & Maintenance	\$9,000	x	No objection
Equipment Maintenance	\$1,000	x	No objection
Meter Installation	\$15,000	x	No objection
Land Lease	\$8,114	x	No objection
Chemicals	\$40,000	x	No objection
Treatment Test & Supplies	\$3,000	x	No objection
Gas Fuels & Lube	\$1,500	x	No objection

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<sup>32</sup>See Stipulation, at 8, and Exhibit KW - A page 1, (line 26, columns 1 and 3).

<sup>33</sup>See Stipulation, at 8, CA-T-1, pages 16 to 20, and Exhibit CA-104.

<sup>34</sup>The third and fourth columns identify whose estimate the other party accepted for settlement purposes. For example, for electricity expense, the Consumer Advocate accepted Kukio's estimate of \$789,819.

Materials & Supplies	\$5,000	x	No objection
Freight & Hauling	\$2,000	x	No objection
Insurance	\$7,245	x	No objection
Rate Case Amortization	\$24,200	\$30,000	x
Legal Expense	\$1,449	x	No objection
Engineer & Other Professional	\$3,000	x	No objection
Other Expenses	\$500	x	No objection
Total O&M Expenses	\$1,207,973		

In general, the operations and maintenance expense amounts (excluding contractor fees) represent the normalized level of funds Kukio will expend during the test year to operate its facilities to provide water services to its ratepayers.

With regard to water operations contractor fees, Kukio has retained Island Utility Services, Inc. ("IUS") to staff, operate and maintain the day-to-day facilities for both its water and sewer services.<sup>35</sup> IUS provides a full range of technical services and expertise.<sup>36</sup> By utilizing IUS, Kukio will benefit from the expertise not available from its own employees and it is less expensive than hiring full-time employees.<sup>37</sup>

Kukio states that the "new contract amount for the prior year was recovered in February 2006 and the monthly rate revised in 2006."<sup>38</sup> The contract includes an annual increase of 3% in contract fees.<sup>39</sup> Based on the above, it is reasonable that the significant increase in distribution monthly fees might have

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<sup>35</sup> See Application, at Exhibit KUC-T-100, page 4.

<sup>36</sup> See Application, at Exhibit KUC-T-100, page 4-6.

<sup>37</sup> See Application, at Exhibit KUC-T-100, page 6.

<sup>38</sup> See Kukio's Response to CA-IR-18d.

<sup>39</sup> See Application, at Exhibit KW 9-4, and Kukio's Response to CA-IR-18e.

been the monthly increase with the new contract and also the increase of the number of meters read. Thus, for settlement purposes, we find the test year stipulated amount for operations contract of \$297,146 reasonable.

The commission finds reasonable the Parties' stipulated amounts for operations and maintenance expenses.

3.

Depreciation Expense

The Parties have agreed upon a Test Year expense amount for depreciation of \$223,517.<sup>40</sup> The calculations are based on the Application, at Exhibits KW 9-1 (line 28, column 8), and KW 9-30 (line 28, column 11). The Consumer Advocate apparently did not object, as it included the same amount in its Direct Testimony.<sup>41</sup> The commission finds that the stipulated amount for depreciation expense is reasonable.

4.

Taxes Other Than Income Taxes

Revenue taxes, otherwise known as taxes other than income taxes ("TOTIT"), consist of the: (1) State Public Service Company Tax ("PSCT"), 5.885 percent; and (2) State Public Utility Fee, 0.50 percent. The commission finds reasonable the Parties' stipulated amount of \$153,406 (applying the tax rates of 5.885

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<sup>40</sup>See Stipulation, at Exhibit KW - A, page 1, (line 25, column 3).

<sup>41</sup>See Direct Testimony, at CA-T-1, Exhibit CA-101.

and 0.5 percent to the proposed revenue of \$2,402,607).<sup>42</sup> The commission agrees with the Parties' methodology and tax rate to be used in calculating the TOTIT, therefore, we find the stipulated amount of \$153,406 on taxes on revenue reasonable.

5.

Income Taxes

Kukio calculated its test year estimated income tax expense using the graduated federal and state income tax rates,<sup>43</sup> thus the income taxes expense amount will differ resulting from different revenue requirement projections.<sup>44</sup> The Parties agreed upon the methodology in deriving the effective income tax rate of 37.9699%.<sup>45</sup> The Test Year income tax expense of \$310,484 is derived by applying the effective income tax rate of 37.9699% to the taxable income at the proposed rate of \$817,711.<sup>46</sup> The commission agrees with the Parties' methodology and the effective income tax rate, thus, finds the Test Year income tax expense of \$310,484 is reasonable.

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<sup>42</sup>See Stipulation, at 16, and Exhibit KW - A, page 5.

<sup>43</sup>See Stipulation, at Exhibit KW - A, page 4.

<sup>44</sup>See Stipulation, at 16.

<sup>45</sup>See Stipulation, at Exhibit KW - A, page 4.

<sup>46</sup>See Stipulation, at Exhibit KW - A, page 3.

Rate Base

Pages 1 and 2 of KW - C of the Stipulation sets forth the Parties' agreed-upon calculations for Kukio's test year rate base for water operations of \$5,731,375.<sup>47</sup> In general, Kukio's rate base consists of the rate base components discussed below:

## a.

Net Plant-in-Service

Generally, plant-in-service represents the utility assets purchased with shareholder funds, otherwise referred to as shareholder investments, or through contributions from sources other than shareholder funds.<sup>48</sup> The key factors for determining the net plant-in-service include plant-in-service and accumulated depreciation. The Parties stipulate to an end-of-year 2007 net plant-in-service amount of \$10,535,466<sup>49</sup> and an end-of-year 2008 net plant-in-service amount of \$10,219,210,<sup>50</sup> constituting an average 2008 Test Year net plant-in-service amount of \$10,377,338.<sup>51</sup>

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<sup>47</sup>See Stipulation, at Exhibit KW - C, page 1, and KW - A, page 1 (line 31, columns 1 and 3).

<sup>48</sup>See Direct Testimony, at CA-T-1, page 23.

<sup>49</sup>See Stipulation, at Exhibit KW - C, page 1 (line 3, column 1).

<sup>50</sup>See Stipulation, at Exhibit KW - C, page 1 (line 3, column 2).

<sup>51</sup>See Stipulation, at Exhibit KW - C, page 1 (line 3, column 3).

i.

Plant-in-Service

Kukio's end-of-year 2007 and 2008 plant-in-service amount averages \$12,790,756.<sup>52</sup> The Consumer Advocate did not object to this sum.<sup>53</sup> The parties stipulated to an average Test Year plant-in-service amount of \$12,790,756.<sup>54</sup>

ii.

Accumulated Depreciation

Kukio's end-of-year 2007 accumulated depreciation amount was \$2,255,290.<sup>55</sup> End-of-year 2008 accumulated depreciation was \$2,571,546.<sup>56</sup> Thus, the average Test Year depreciation amount is \$2,413,418.<sup>57</sup> The Consumer Advocate did not object to these amounts.<sup>58</sup> Based on this analysis, the Parties stipulated to a Test Year accumulated depreciation of \$2,413,418.<sup>59</sup> The commission finds this average to be reasonable.

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<sup>52</sup>See Stipulation, at 17, and Application, at Exhibit KW 8-1, (line 1, columns 2 to 4).

<sup>53</sup>See Direct Testimony, at CA-T-1, page 24, (lines 11 to 14).

<sup>54</sup>See Stipulation, at 18, Exhibit KW - C, page 1, (line 1).

<sup>55</sup>See Stipulation, at 18, and Application, at Exhibit KW 8-1, page 1 (line 2, column 2).

<sup>56</sup>See Stipulation, at 18, and Application, at Exhibit KW 8-1, page 1, (line 2, column 3).

<sup>57</sup>See Stipulation, at 18, and Application, at Exhibit KW 8-1, page 1, (line 2, column 4).

<sup>58</sup>See Direct Testimony, at CA-T-1, Exhibit CA-102.

<sup>59</sup>See Stipulation, at 18, and Exhibit KW - C, page 1, (line 2, column 3).

b.

Accumulated Deferred Income Taxes

Kukio proposed an average Test Year ADIT amount of \$563,929.<sup>60</sup> The Consumer Advocate did not object to, nor recommend any adjustments to this amount.<sup>61</sup> The Parties stipulated to an average Test Year ADIT amount of \$563,929, which amount is a deduction from the Test Year average rate base.<sup>62</sup>

Prior to January 1, 2007, Kukio purchased water to serve its customers from its parent WB Kukio Resorts.<sup>63</sup> Effective as of January 1, 2007, the HR wells and equipment are being transferred to Kukio.<sup>64</sup> The Consumer Advocate reviewed the costs that should be included in rate base for the facilities that were or are to be transferred to Kukio from its parent company, and had no significant concerns regarding the costs or the value of the said facilities.<sup>65</sup> The average Test Year ADIT amount is derived by applying the effective tax rate of 37.9699 percent to the difference between the test year average accumulated tax depreciation and the test year average accumulated book depreciation. The Parties agreed upon the methodology, the tax rate and the stipulated ADIT amount of

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<sup>60</sup>See Stipulation, at 18, and Application, at Exhibits KW 8-5, and KW 8-1, page 1 (line 4, column 4).

<sup>61</sup>See Direct Testimony, at CA-T-1, Exhibit CA-102.

<sup>62</sup>See Stipulation, at 18, and KW - C, page 1, (line 7, column 3).

<sup>63</sup>See Application, at Exhibit KUC-T-100, pages 6-7.

<sup>64</sup>See Application, at Exhibit KUC-T-100, page 7.

<sup>65</sup>See Direct Testimony, at CA-T-1, page 24-25.

\$563,929. The commission agrees with the methodology and tax rate, thus, for settlement purposes, we find the test year ADIT amount of \$563,929 reasonable.

c.

Committed Capacity

Kukio's average Test Year committed capacity amount for Makalei was \$1,076,627.<sup>66</sup> The Consumer Advocate did not object to, nor recommend any adjustment.<sup>67</sup> Therefore, the Parties stipulated to a capacity amount for Makalei of \$1,076,627.<sup>68</sup>

Kukio's average Test Year committed capacity amount for "others" (other than Makalei) was \$92,513.<sup>69</sup> The Consumer Advocate did not object to, nor recommend any adjustment.<sup>70</sup> Therefore, the Parties stipulated to a capacity amount for "others" of \$92,513.<sup>71</sup> This amount will be deducted from the Test Year average rate base.

d.

Excess Capacity

Excess capacity is comprised of two components, production, and treatment and transportation. Kukio's average

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<sup>66</sup>See Application, at Exhibit KW 8-1, (line 8, column 4).

<sup>67</sup>See Direct Testimony, at CA-T-1, Exhibit CA-102.

<sup>68</sup>See Stipulation, at 19, and Exhibit KW - C, page 1, (line 15, column 3).

<sup>69</sup>See Application, at Exhibit KW 8-1, (line 9, column 4).

<sup>70</sup>See Direct Testimony, at CA-T-1, Exhibit CA-102.

<sup>71</sup>See Stipulation, at 19, and Exhibit KW - C, page 1, (line 16, column 3).

Test Year production excess capacity amount was \$1,071,959.<sup>72</sup> The Consumer Advocate did not object to, nor modify this amount.<sup>73</sup> The Parties have stipulated to a Test Year excess capacity amount for production of \$1,071,959.<sup>74</sup>

For treatment and transportation, Kukio's average Test Year excess capacity amount was \$1,941,599.<sup>75</sup> The Consumer Advocate did not object, nor recommend any adjustment to this amount.<sup>76</sup> The Parties have agreed to a Test Year excess capacity amount for treatment and transportation of \$1,941,599.<sup>77</sup>

e.

#### Working Capital

In its Application, Kukio proposed a Test Year working cash requirement of \$101,144 and the methodology for computing the working cash assumed that the working cash requirement equated to  $1/12^{\text{th}}$  of total estimated test year operating expenses.<sup>78</sup> Using the  $1/12^{\text{th}}$  factor to compute working capital is a commonly accepted methodology for small utilities such as Kukio

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<sup>72</sup>See Application, at Exhibit KW 8-1, (line 10, column 4) and KW 8-6.

<sup>73</sup>See Direct Testimony, at CA-T-1, Exhibit CA-102.

<sup>74</sup>See Stipulation, at 20; and Exhibit KW - C, page 1, (line 17, column 3).

<sup>75</sup>See Application, at KW 8-1, (line 11, column 4).

<sup>76</sup>See Direct Testimony, at CA-T-1, Exhibit CA-102.

<sup>77</sup>See Stipulation, at 20, and KW - C, page 1, (line 18, column 3).

<sup>78</sup>See Application, at KW 8-1, and KW 8-8.

that do not generate sufficient revenues to justify incurring the costs of performing a lead/lag study<sup>79</sup>. The Consumer Advocate agrees upon the 1/12<sup>th</sup> factor methodology.<sup>80</sup> However, the Consumer Advocate proposes a Test Year working capital amount of \$100,664, which reflects the reduction of \$5,800 to the Test Year rate case amortization expense.<sup>81</sup> Kukio has agreed to the Consumer Advocate's recommendation and the stipulated amount of \$100,664 for working cash at present rates.<sup>82</sup> We agree with the methodology and also find the stipulated amount is reasonable.

7.

Rate of Return

As part of its Application, Kukio sought a return on rate base of 8.85%.<sup>83</sup> The Consumer Advocate did not object, nor recommend any adjustment to this return on rate base.<sup>84</sup> The Parties stipulated to 8.85% for Kukio's water operations.<sup>85</sup>

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<sup>79</sup>See Decision and Order No. 13971, (Docket No. 7984, Waikoloa Sanitary Sewer Company); Decision and Order No. 16372, (Docket No. 96-0366, West Hawaii Utility company); and Decision and Order No. 19812, (Docket No. 01-0275, Kaupulehu Waste Water Company).

<sup>80</sup>See Direct Testimony, at CA-T-1, page 26.

<sup>81</sup>See Direct Testimony, at CA-T-1, page 27.

<sup>82</sup>See Stipulation, at Exhibit KW - C, pages 1 to 3.

<sup>83</sup>See Application, at Exhibits KW 6, (line 15, column 4), and KW 10-1 (line 8, column 3).

<sup>84</sup>See Direct Testimony, at CA-T-1, page 28, (lines 1 to 5).

<sup>85</sup>See Stipulation, at 21, and KW - A, page 1, (line 32, column 3).

The agreed-upon rate of return of 8.85% is based on the same rate of return found to be fair by the commission in the following water and sewer dockets:<sup>86</sup> In re Puhi Sewer & Water Co., Inc., Decision and Order No. 23376, filed on April 20, 2007, in Docket No. 2006-0423; In re KRWC Corp., dba Kohala Ranch Water Company, Decision and Order No. 23404, filed on May 1, 2007, in Docket No. 05-0334; In re Laie Water Co., LLC, Decision and Order No. 23522, filed on June 29, 2007, in Docket No. 2006-0502; In re North Shore Wastewater Treatment, Proposed Decision and Order No. 23916, filed on December 20, 2007, in Docket No. 2006-0486; and In re Waikoloa Sanitary Sewer Co., dba West Hawaii Sewer Co., Interim Decision and Order No. 23940, filed on December 28, 2007, in Docket No. 05-0329. Under the circumstances, the commission finds that the stipulated rate of return of 8.85% is fair and reasonable.

8.

Rate Design

The Parties stipulated to the following rate design based upon the expense items and rate base discussed above and to provide a Test Year revenue requirement of \$2,402,607, representing a total revenue increase of \$232,341, or approximately 10.71% for Kukio's water operations.

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<sup>86</sup>Similar to Kukio, the listed utility companies have less than \$2 million annual gross revenue.

### Monthly Meter Charges

Meter Size/Service	Present Rate	Proposed Rate	Percent Increase
3/4"	\$11.50	\$12.75	10.87%
5/8"	\$11.50	\$12.75	10.87%
1"	\$11.50	\$12.75	10.87%
1 1/2"	\$30.00	\$33.25	10.83%
2"	\$30.00	\$33.25	10.83%
4"	\$30.00	\$33.25	10.83%
Other sizes	\$30.00	\$33.25	10.83%

\*Monthly charge per installed meter

### Monthly Water Consumption Charge - Rate/Gallons

Block/Definition (gallons/month/meter)	Present Rate Rate/1000 gal.	Proposed Rate Rate Rate/1000 gal.	Percent Increase
Block I (0-29,999)	\$4.75	\$5.2587	10.71%
Block II (30,000-74,999)	\$6.75	\$7.4729	10.71%
Block III (75,000- above)	\$8.75	\$9.6871	10.71%

The slight differences in the above percent increases result from rounding the monthly charges and do not materially impact the overall settlement revenue requirement.

See Stipulation, at 22. Upon review, the commission finds reasonable the Parties' stipulated rate design, which provides Kukio with a reasonable opportunity to earn its test year revenue requirement.

9.

### Monthly Bulk Interruptible Rate

The Parties agreed to retain the existing Bulk Interruptible Rate without modification.<sup>87</sup>

10.

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<sup>87</sup>See Stipulation, at 23.

## Power Cost Adjustment Factor for Water Operations

Kukio requests the establishment of a PCAF for its water operations.<sup>88</sup> The Consumer Advocate did not object.<sup>89</sup> The Parties have agreed to adopt Kukio's proposed PCAF formula.<sup>90</sup>

### C.

#### Wastewater Operations

##### 1.

#### Operating Revenues

Kukio's Application originally sought a Test Year revenue requirement of \$929,010.<sup>91</sup> In its Direct Testimony, the Consumer Advocate proposed a Test Year revenue requirement amount of \$797,673.<sup>92</sup>

The Parties have agreed upon a Test Year revenue requirement amount of \$840,992 for sewer operations.<sup>93</sup> This amount consists of \$696,728 in total operating expenses, depreciation, and taxes plus \$144,264 in operating income after income taxes, based on an 8.85% stipulated rate of return on the stipulated average rate base amount of \$1,630,104.<sup>94</sup> The result

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<sup>88</sup> See Application, at 12; and Exhibit KUC-T-200, page 38.

<sup>89</sup> See Direct Testimony, at CA-T-1, page 31, (lines 14 to 18).

<sup>90</sup> See Stipulation, at 24.

<sup>91</sup> See Stipulation, at 25 and Application, at Exhibit KS 6, (line 7, column 4).

<sup>92</sup> See Direct Testimony, at Exhibit CA-108.

<sup>93</sup> See Stipulation, at 25, and Exhibit KS - A, page 1, (line 7, column 3).

<sup>94</sup> See Stipulation, at 25, and Exhibit KS - A, page 1, (lines 33 and 34, column 3).

is a revenue decrease of \$28,030, or approximately 3.23% from revenues at present rates for wastewater operations.<sup>95</sup> The contributing factors for the differences in sewer operation revenue requirements are rate case amortization expenses, working cash amounts, and excess capacity.

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

## 2.

### Operating Expenses

As set forth in Exhibit KS - A, attached to the Stipulation, the Parties have agreed upon an amount of \$554,724 for Kukio's Test Year total O&M expenses and depreciation expense at present and proposed rates.<sup>96</sup> The Consumer Advocate generally accepted Kukio's proposed O&M expense amounts, with a few adjustments.<sup>97</sup>

A discussion of each of Kukio's O&M expense items, the additional information and analyses provided by the

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<sup>95</sup>See Stipulation, at 25, and Exhibit KS - A, page 1, (line 7, column 2).

<sup>96</sup>See Stipulation, at 26, and Exhibit KS - A page 1, (line 28, columns 1 and 3).

<sup>97</sup>See Stipulation, at 26, and CA-T-1, pages 39 to 42, and Exhibit CA-111.

Consumer Advocate, and the resulting settlement reached between the Parties on each O&M expense item follows below.

The Parties agree on the following operations and maintenance expense amounts for the test year:<sup>98</sup>

<u>Operations/Maintenance</u>	<u>Parties' Agreement</u>	<u>Kukio's Estimate</u>	<u>CA's Estimate</u>
Electricity	\$100,755	x	No objection
Operations Contractor Fees	\$229,444	x	No objection
System Repair & Maintenance	\$25,000	x	No objection
Equipment Maintenance	\$1,000	x	No objection
Other Repairs and Maintenance	\$1,500	x	No objection
Safety Equipment & Supply	\$500	x	No objection
Chemicals	\$1,000	x	No objection
Treatment Test & Supplies	\$7,000	x	No objection
Gas Fuels & Lube	\$1,500	x	No objection
Materials & Supplies	\$2,000	x	No objection
Freight & Hauling	\$1,000	x	No objection
Insurance	\$8,000	x	No objection
Rate Case Amortization	\$17,600	\$23,400	x
Legal Expense	\$1,500	x	No objection
Engineer & Other Professional	\$2,000	x	No objection
Other Expenses	\$500	x	No objection
Water for Treatment	\$39,696	x	No objection
Maint. & Trash Removal	\$4,000	x	No objection
Lift Station & Force Mn.	\$56,167	\$68,895	x
Total O&M Expenses	\$500,162		

In general, the operations and maintenance expense amounts (excluding contractor fees) represent the normalized level of funds Kukio will expend during the test year to operate its facilities to provide water services to its ratepayers.

With regard to wastewater operations contractor fees, similar to water operation services, Kukio has retained IUS to

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<sup>98</sup>The third and fourth columns identify whose estimate the other party accepted for settlement purposes.

staff, operate and maintain the day-to-day facilities for both its water and sewer services.<sup>99</sup> IUS provides a full range of technical services and expertise.<sup>100</sup> By utilizing IUS, Kukio will benefit from the expertise not available from its own employees and it is less expensive than hiring full-time employees.<sup>101</sup>

The new contract amount for the prior year was recovered in February 2006 and the monthly rate revised in 2006."<sup>102</sup> The current amount is provided in confidential attachment Response to CA-IR-39b.<sup>103</sup> The functions covered are provided in the contracts, as well as the annual increase of 3% for the contract period through August 31, 2008.<sup>104</sup> An increase of 3% effective on September 1, 2008 was used to be consistent with the prior contracts.<sup>105</sup>

The commission finds the stipulated amount of \$229,444 for the wastewater operations contract fee is reasonable.

The commission finds reasonable the Parties' stipulated amounts for wastewater operations and maintenance expenses.

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<sup>99</sup>See Application, at Exhibit KUC-T-100, page 4.

<sup>100</sup>See Application, at Exhibit KUC-T-100, page 4-6.

<sup>101</sup>See Application, at Exhibit KUC-T-100, page 6.

<sup>102</sup>See Kukio's Response to CA-IR-39c.

<sup>103</sup>See Kukio's Response to CA-IR-39b (filed under and subject to Protective Order No. 23602).

<sup>104</sup>See Kukio's Response to CA-IR-39b (filed under and subject to Protective Order No. 23602), and 39d.

<sup>105</sup>See Kukio's Response to CA-IR-39d.

3.

Depreciation Expense

The Parties have agreed upon a Test Year expense amount for depreciation of \$54,562.<sup>106</sup> Kukio initially proposed an amount of \$66,927, however, during discussions, the Consumer Advocate proposed an adjustment to the excess capacity factor, and any adjustment would correspondingly result in an adjustment to the Test Year expense amount for depreciation.<sup>107</sup> The commission finds that the stipulated amount for depreciation expense is reasonable.

4.

Taxes Other Than Income Taxes

Based on the Parties' stipulation regarding the revenue requirement, they agreed upon taxes on revenue amounts of \$55,487 and \$53,697 (applying the tax rates of 5.885 and 0.5 percent to the proposed revenue of \$840,992), at present and proposed rates, respectively, for the Test Year.<sup>108</sup> The commission agrees with the Parties' methodology of calculating the TOTIT, therefore, we find the stipulated amount of \$53,697 on taxes on revenue is reasonable.

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<sup>106</sup>See Stipulation, at 35, and Exhibit KS - A, page 1, (line 27, column 3).

<sup>107</sup>See Stipulation, at 34, and Application, at Exhibit KS 9-30, (line 22).

<sup>108</sup>See Stipulation, at 35, and Exhibit KS - A, page 1, (line 29).

5.

Income Taxes

The differences between the Parties' income tax projections resulted from the differing revenue requirement projections. After agreeing upon the revenue requirement, they stipulated to income tax amounts of \$98,270 and \$88,307, at present and proposed rates, respectively, for the Tax Year.<sup>109</sup> The Parties agreed upon the methodology in deriving the effective income tax rate of 37.9699%.<sup>110</sup> The Test Year income tax expense of \$88,307 is derived by applying the effective income tax rate of 37.9699% to the taxable income at proposed rate of \$232,571.<sup>111</sup> We agree with the Parties' methodology and the effective income tax rate, thus, we find the Test Year income tax expense of \$88,307 is reasonable.

6.

Rate Base

Pages 1 and 2 of KS - C of the Stipulation sets forth the Parties' agreed-upon calculations for Kukio's test year rate base for wastewater operations of \$1,630,104.<sup>112</sup> In general, Kukio's rate base consists of the rate base components discussed below:

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<sup>109</sup> See Stipulation, at 35, and Exhibit KS - A, page 1, (line 30) and page 3.

<sup>110</sup> See Stipulation, at Exhibit KS - A, page 4.

<sup>111</sup> See Stipulation, at Exhibit KS - A, page 3.

<sup>112</sup> See Stipulation, at Exhibits KS - C, page 1 and KS - A, page 1, (line 33, columns 1 and 3).

a.

Net Plant-in-Service

The Parties stipulated to an average 2008 Test Year net plant-in-service amount for sewer operations of \$5,016,941.<sup>113</sup> The average is based on the end-of-year 2007 amount of \$5,095,580 and end-of-year 2008 net plant-in-service amount of \$4,938,302.<sup>114</sup>

i.

Plant-in-Service

Kukio proposed an average Test Year amount of \$5,715,480 for its plant-in-service.<sup>115</sup> The Consumer Advocate did not object, nor adjust this amount.<sup>116</sup> The Parties stipulated to the \$5,715,480 amount for plant-in-service for wastewater operations.<sup>117</sup>

ii.

Accumulated Depreciation

The Parties stipulated to an amount for accumulated depreciation which is the straight average of the end-of-year 2007 and end-of-year 2008 amount. Kukio's end-of-year 2007

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<sup>113</sup>See Stipulation, at 39, and Exhibit KS - C, (line 3, column 3).

<sup>114</sup>See Stipulation, at 36; and Exhibit KS - C, (line 3, columns 1 and 2).

<sup>115</sup>See Application, at Exhibit KS 8-1.

<sup>116</sup>See Direct Testimony, at CA-T-1, page 45, (lines 5 to 8).

<sup>117</sup>See Stipulation, at 37, and Application, at Exhibit KS - C, page 1, (line 1).

accumulated depreciation was \$619,900.<sup>118</sup> End-of-year 2008 accumulated depreciation was \$777,178.<sup>119</sup> Thus, the average Test Year depreciation amount is \$698,539.<sup>120</sup> The Consumer Advocate did not object to these amounts.<sup>121</sup> Based on this analysis, the Parties stipulated to a Test Year accumulated depreciation of \$698,539.<sup>122</sup> The commission finds this average to be reasonable.

b.

ADIT

For wastewater, the Kukio proposed an average Test Year ADIT amount of \$437,898;<sup>123</sup> based upon the end-of-year 2007 amount of \$407,546 and end-of-year 2008 amount of \$468,250.<sup>124</sup> The Consumer Advocate did not object to, nor recommend any adjustments to these amounts.<sup>125</sup> The Parties stipulated to an

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<sup>118</sup> See Stipulation, at 37, and Application, at Exhibit KS 8-1, page 1, (line 2, column 2).

<sup>119</sup> See Stipulation, at 37, and Application, at Exhibit KS 8-1, page 1, (line 2, column 3).

<sup>120</sup> See Stipulation, at 37, and Application, at Exhibit KS 8-1, page 1, (line 2, column 4).

<sup>121</sup> See Direct Testimony, at CA-T-1, and Exhibit CA-109.

<sup>122</sup> See Stipulation, at 37, and Exhibit KS - C, page 1, (line 2, column 3).

<sup>123</sup> See Stipulation, at 37, and Application, at Exhibits KS 8-5, (line 9, column 5) and KS 8-1, page 1, (line 5, column 4).

<sup>124</sup> See Stipulation, at 37, and Application, at Exhibits KS 8-5, (line 9, columns 3 and 4) and KS 8-1, page 1, (line 5, columns 2 and 3).

<sup>125</sup> See Direct Testimony, at CA-T-1, Exhibit CA-109.

average Test Year ADIT amount of \$437,898, which amount is a deduction from the Test Year average rate base.<sup>126</sup>

The average Test Year ADIT amount is derived by applying the effective tax rate of 37.9699 percent to the difference between the test year average accumulated tax depreciation and the test year average accumulated book depreciation. The Parties agreed upon the methodology, the tax rate and the stipulated ADIT amount of \$437,898. The commission agrees with the methodology and tax rate, thus, for settlement purposes, we find the test year ADIT amount of \$437,898 is reasonable.

c.

#### Excess Capacity

Kukio acknowledges that a portion of its plant in service for sewer operations is in excess of what would be needed to serve its customer base in the Test Year, including an additional amount for unforeseen flows.<sup>127</sup> The Parties differed in methods to calculate capacity until Kukio explained the unusual usage patterns of its customers who are seasonal occupants and only utilize wastewater services for portions of the year, as compared to customers who are generally full-time residents.<sup>128</sup> Kukio states that the highest usage months occur in December, January, and from April through June (Christmas, New Year season,

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<sup>126</sup>See Stipulation, at 37, and KS - C, page 1, (line 7, column 3).

<sup>127</sup>See Stipulation, at 38.

<sup>128</sup>See Stipulation, at 39.

as well as spring break and summer).<sup>129</sup> Kukio claims that regardless of annual average usage per day, it must nevertheless ensure sufficient capacity during these high-occupancy periods; higher than the annual average daily flows calculated by the Consumer Advocate to compute excess capacity.<sup>130</sup> Based on the above, the Parties agreed to utilize the average of the highest maximum daily flow amounts for December 2006, April 2007, and May 2007; resulting in an excess capacity factor of 65.311%.<sup>131</sup> The Parties stipulated to an average Test Year excess capacity amount of \$2,990,619.<sup>132</sup>

d.

#### Working Capital

In its Application, Kukio proposed a Test Year working capital amount of \$43,056.<sup>133</sup> The Consumer Advocate proposed \$42,741.<sup>134</sup> The Parties were in agreement as to the methodology used to calculate working capital, however, the difference resulted from their differing operating expenses estimates.<sup>135</sup> The Parties came to agreement on the operating expense

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<sup>129</sup>See Stipulation, at 39-40.

<sup>130</sup>See Stipulation, at 39.

<sup>131</sup>See Stipulation, at 40, and Exhibit KS - C, page 1, (lines 17 to 22).

<sup>132</sup>See Stipulation, at 40, and Exhibit KS - C, page 1, (line 22, column 4).

<sup>133</sup>See Stipulation, at 40, and Exhibits KS 8-1, (line 14, column 4), KS 8-6, (line 23, column 4).

<sup>134</sup>See Direct Testimony, at CA-T-1, page 48.

<sup>135</sup>See Stipulation, at 41, and CA-T-1, pages 47 to 48.

projections and the excess capacity factor affecting certain operating expenses, therefore, stipulated to an average Test Year amount for working capital of \$41,680.<sup>136</sup> The commission agrees with the methodology and also finds the stipulated amount to be reasonable.

7.

Rate of Return for Sewer Operations

As part of its Application, Kukio sought a return on rate base of 8.85%.<sup>137</sup> The Consumer Advocate did not object, nor recommend any adjustment to this return on rate base.<sup>138</sup> The Parties stipulated to 8.85% for Kukio's wastewater operations.<sup>139</sup>

8.

Rate Design for Wastewater Operations

The Parties stipulated to the following rate design to provide a reasonable opportunity for Kukio to earn the Test Year revenue requirement of \$840,992, representing a total revenue decrease of (\$28,030), or an approximately 3.23% decrease from

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<sup>136</sup>See Stipulation, at 41, and Exhibit KS - C, page 1, (line 23, column 4).

<sup>137</sup>See Application, at Exhibits KS 6, (line 15, column 4) and KS 10-1, (line 8, column 3).

<sup>138</sup>See Direct Testimony, at CA-T-1, page 48, (lines 8 to 12).

<sup>139</sup>See Stipulation, at 41, and Exhibit KS - A, page 1, (line 34, column 3).

revenues at present rates.<sup>140</sup> The stipulated rate design is as follows:

**Monthly Stand-By Charges**

Type of Service	Present Rates	Proposed Rate	Percent Increase
Residential	\$50.00 per dwelling unit per month	\$53.90 per dwelling unit per month	7.8%
Commercial	\$50.00 per toilet per month	\$53.90 per toilet per month	7.8%

**Monthly Quantity Charge - Rate/Gallons\***

Type of Service	Present Rates	Proposed Rate	Percent Increase
Residential and Commercial	\$3.50	\$3.7750	7.9%

\*Per thousand gallons of metered domestic water consumption.

See Stipulation, at 42. Upon review, the commission finds reasonable the Parties' stipulated rate design, which provides Kukio with a reasonable opportunity to earn its test year revenue requirement.

The Parties' stipulated rate increase provides Kukio with a reasonable opportunity to earn its test year revenue requirement of \$2,401,607 for water and \$840,992 for wastewater. The Parties' Stipulation results from arms-length negotiations, involving "give and take" on both sides. The commission finds that the Parties' Stipulation, taken as a whole, appears just and reasonable. Accordingly, for purposes of this proceeding, the commission approves the Parties' Stipulation, consistent with the terms of this Proposed Decision and Order. Nonetheless, the commission's approval of the Parties' Stipulation, or of the

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<sup>140</sup>See Stipulation, at 41 to 42.

methodologies used herein, may not be cited as precedent by any parties in any future commission proceeding.

9.

Amended Service Territory Map

In addition to the rate increases and revisions, Kukio also seeks expansion of its territory within this docket. Specifically, it intends to provide water and wastewater services Phase III of the Manini'owali development ("Phase III") (so that it would be servicing the entire Manini'owali development), which is being developed by WB Manini'owali, LLC, and affiliate of WB Kukio Resorts.<sup>141</sup> When Docket No. 04-0137 was being determined, Kukio decided to exclude the approximately 15 units in Phase III because of water pressure issues; those issues have since been resolved.<sup>142</sup> Kukio states that Phase III rates would be at the same tariff rates as that currently charged the rest of the Manini'owali development.<sup>143</sup>

After review, the commission finds that Kukio's request to expand its service territory to include Phase III of Manini'owali is reasonable. Kukio shall file an updated service territory map of its tariff.

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<sup>141</sup>See Stipulation, at 43, and Kukio's Response to CA-IR-48.

<sup>142</sup>See Stipulation, at 43, and Kukio's Response to CA-IR-48.

<sup>143</sup>See Stipulation, at 43-44, and Kukio's Response to CA-IR-48.

### III.

#### Summary of Findings and Conclusions

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

In sum, the commission finds and concludes:

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

2. The operating revenues and expenses for the Test Year for wastewater operations, as set forth in Exhibit B, attached, are reasonable.

3. Kukio's Test Year revenue requirement of \$2,402,607 for water is reasonable.

4. Kukio's Test Year revenue requirement of \$840,992 for wastewater is reasonable.

5. Kukio's rate of return of 8.85% is fair, as well as the rate base of \$5,731,375 for water, and \$1,630,104 for wastewater, which are reasonable.

6. Kukio is entitled to an increase in revenues of \$232,341 or 10.71% over revenues at present rates; and total operating revenues of \$2,402,607 for its water operations.

7. Kukio may decrease its rates to produce an annual revenue decrease for wastewater operations of \$28,030, or approximately 3.23%, reducing Kukio's revenue requirement to \$840,992.

8. The Parties' stipulated rate design is reasonable.

9. Kukio's proposal to establish and implement its PCAF is reasonable.

10. Kukio shall promptly file its revised tariff sheets, and rates schedules for the commission's review and approval, which implement the increases in rates and charges authorized by this Proposed Decision and Order, with copies served upon the Consumer Advocate. Kukio's filing shall include its approved PCAF, and an updated map of its authorized service territory.

#### IV.

##### Acceptance or Non-Acceptance

Consistent with HRS § 269-16(f)(3), within ten days from the date of this Proposed Decision and Order, each of the Parties shall notify the commission as to whether it:<sup>144</sup>

1. Accepts in toto, the Proposed Decision and Order.  
If the Parties accept the Proposed Decision and Order, they

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<sup>144</sup>This deadline is consistent with the deadline to move for reconsideration of a commission decision or order. See HAR §§ 6-61-137 (ten-day deadline to file a motion for reconsideration); 6-61-21(e) (two days added to the prescribed period for service by mail); and 6-61-22 (computation of time).

"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; provided that the parties to the proceeding may waive the contested case hearing." Id. The commission shall make every effort to complete its deliberations and issue its Decision and Order by July 22, 2007. Id.

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

V.

Orders

THE COMMISSION ORDERS:

1. The Parties' Stipulation, filed on December 27, 2007, is approved, consistent with the terms of this Proposed Decision and Order.

2. Kukio may increase its rates to produce additional revenues of \$232,341, or approximately 10.71% over revenues at present rates for its water operations, as shown on Exhibit A, attached, representing an increase in Kukio's revenue requirement to \$2,402,607.

3. Kukio may decrease its rates to produce an annual revenue decrease for wastewater operations of \$28,030, or approximately 3.23% decrease, as shown in Exhibit B, attached, representing a decrease in Kukio's revenue requirement to \$840,992.

4. Kukio is authorized to earn an 8.85% rate of return on its average test year rate base of \$5,731,375 for water, and \$1,630,104 for wastewater.

5. Kukio shall promptly file its revised tariff sheets and rates schedules for the commission's review and approval, which implement the changes in rates and charges authorized by this Proposed Decision and Order, with copies served upon the Consumer Advocate. Kukio's filing shall include its approved PCAF and an updated map of its authorized service territory, consistent with the terms of this Proposed Decision and Order. Kukio's revised tariff sheets and rate schedules,

including the implementation of its approved PCAF, shall take effect upon the commission's approval of said filing.

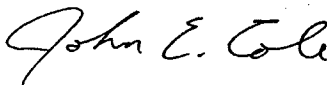
6. Within ten days from the date of this Proposed Decision and Order, each of the Parties shall notify the commission as to whether it accepts, in toto, or does not accept, in whole or in part, this Proposed Decision and Order, consistent with Section IV, above. A party's objection or non-acceptance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

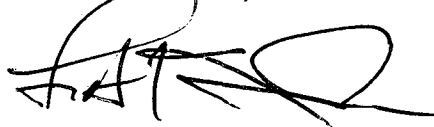
DONE at Honolulu, Hawaii January 18, 2008.

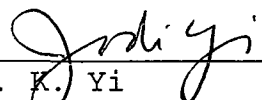
PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

By   
Carlito P. Caliboso, Chairman

By:   
John E. Cole, Commissioner

APPROVED AS TO FORM:

By:   
Leslie H. Kondo, Commissioner

  
Jodi L. K. Yi  
Commission Counsel

2007-0198.eh

**DOCKET NO. 2007-0198**  
**KUKIO UTILITY COMPANY**  
**REVENUE REQUIREMENTS - WATER**  
**TEST YEAR ENDED DECEMBER 31, 2008**

	Present Rates	Additional Amount	Proposed Rates
<b>REVENUES</b>			
Potable Water Sales	\$ 2,071,641	\$ 221,859	\$ 2,293,500
Meter Rentals	32,166	3,494	35,660
Installation Charges	31,000	3,100	34,100
Reconnect Charges	1,000	100	1,100
Imputed - Kua Bay Beach	13,368	1,432	14,800
Imputed - Veteran Cemetery	21,091	2,259	23,350
Rounding	-	97	97
Total Operating Revenues	<u>2,170,266</u>	<u>232,341</u>	<u>2,402,607</u>
<b>OPERATING &amp; MAINT. EXPENSES</b>			
Electricity Expense	789,819		789,819
Operations Contract	297,146		297,146
System Repair & Maintenance	9,000		9,000
Equipment Maintenance	1,000		1,000
Meter Installation	15,000		15,000
Land Lease	8,114		8,114
Chemicals	40,000		40,000
Treatment Test & Supplies	3,000		3,000
Gas Fuel & Lube	1,500		1,500
Materials & Supplies	5,000		5,000
Freight & Hauling	2,000		2,000
Insurance	7,245		7,245
Rate Case Amortization	24,200		24,200
Legal Expense	1,449		1,449
Engineer & Other Professional	3,000		3,000
Other Expenses	500		500
Total O & M Expenses	<u>1,207,973</u>	<u>-</u>	<u>1,207,973</u>
Depreciation	223,517		223,517
TOTIT	138,571	14,835	153,406
Income Taxes	227,897	82,587	310,484
Total Operating Expenses	<u>1,797,958</u>	<u>97,422</u>	<u>1,895,380</u>
Net Operating Income (Loss)	<u>\$ 372,308</u>	<u>\$ 134,919</u>	<u>\$ 507,227</u>
Average Rate Base	<u>\$ 5,731,375</u>		<u>\$ 5,731,375</u>
Return on Rate Base	<u>6.50%</u>		<u>8.85%</u>

**DOCKET NO. 2007-0198  
KUKIO UTILITY COMPANY  
TAXES OTHER THAN INCOME TAXES - WATER  
TEST YEAR ENDED DECEMBER 31, 2008**

	<u>Tax Rates</u>	<u>Present Rates</u>	<u>Additional Amount</u>	<u>Proposed Rates</u>
Total Operating Revenues		<u>\$ 2,170,266</u>	<u>\$ 232,341</u>	<u>\$ 2,402,607</u>
Public Company Service Tax	5.885%	127,720	13,673	141,393
Public Utility Fee	0.500%	<u>10,851</u>	<u>1,162</u>	<u>12,013</u>
Total Revenue Taxes	6.385%	<u>\$ 138,571</u>	<u>\$ 14,835</u>	<u>\$ 153,406</u>

**DOCKET NO. 2007-0198  
KUKIO UTILITY COMPANY  
INCOME TAX EXPENSE - WATER  
TEST YEAR ENDED DECEMBER 31, 2008**

	<u>Present Rates</u>	<u>Proposed Rates</u>
<b>REVENUES</b>		
Potable Water Sales	\$ 2,071,641	\$ 2,293,500
Meter Rentals	32,166	35,660
Installation Charges	31,000	34,100
Reconnect Charges	1,000	1,100
Imputed - Kua Bay Beach	13,368	14,800
Imputed - Veteran Cemetery	21,091	23,350
Rounding	-	97
Total Operating Revenues	<u>2,170,266</u>	<u>2,402,607</u>
<b>OPERATING &amp; MAINT. EXPENSES</b>		
Electricity Expense	789,819	789,819
Operations Contract	297,146	297,146
System Repair & Maintenance	9,000	9,000
Equipment Maintenance	1,000	1,000
Meter Installation	15,000	15,000
Land Lease	8,114	8,114
Chemicals	40,000	40,000
Treatment Test & Supplies	3,000	3,000
Gas Fuel & Lube	1,500	1,500
Materials & Supplies	5,000	5,000
Freight & Hauling	2,000	2,000
Insurance	7,245	7,245
Rate Case Amortization	24,200	24,200
Legal Expense	1,449	1,449
Engineer & Other Professional	3,000	3,000
Other Expenses	500	500
Depreciation Expense	223,517	223,517
TOTIT	138,571	153,406
Total O & M Expenses	<u>1,570,061</u>	<u>1,584,896</u>
Taxable Income	600,205	817,711
Income Tax Provision		
Effective tax rate of	37.9699%	227,897
Income Tax Expense	<u>\$ 227,897</u>	<u>\$ 310,484</u>

**DOCKET NO. 2007-0198  
KUKIO UTILITY COMPANY  
AVERAGE RATE BASE - WATER  
TEST YEAR ENDED DECEMBER 31, 2008**

<b>Description</b>	<b>At 12/31/2006</b>	<b>At 12/31/2007</b>	<b>Average</b>
Plant in Service	\$ 12,790,756	\$ 12,790,756	
Accum. Depreciation	(2,255,290)	(2,571,546)	
Net-Plant-in-Service	<u>10,535,466</u>	<u>10,219,210</u>	<u>\$ 10,377,338</u>
Deduct:			
CIAC	-	-	
Accumulated Amortization of CIAC	-	-	
Accumulated Deferred Income Tax	505,899	621,959	
HCGETC			
Subtotal	<u>505,899</u>	<u>621,959</u>	<u>563,929</u>
Subtotal	<u>10,029,567</u>	<u>9,597,251</u>	<u>9,813,409</u>
Average			<u>9,813,409</u>
Less Committed Capacity			
Makalei			(1,076,627)
Others			(92,513)
Less Excess Capacity			
Production			(1,071,959)
Treatment & Transportation			(1,941,599)
Working Cash at Present Rates			<u>100,664</u>
Rate Base at Present and Proposed Rates			<u><u>\$ 5,731,375</u></u>

**DOCKET NO. 2007-0198**  
**KUKIO UTILITY COMPANY**  
**WORKING CASH REQUIREMENT - WATER**  
**TEST YEAR ENDED DECEMBER 31, 2008**

Operating Expenses

Electricity Expense	\$	789,819
Operations Contract		297,146
System Repair & Maintenance		9,000
Equipment Maintenance		1,000
Meter Installation		15,000
Land Lease		8,114
Chemicals		40,000
Treatment Test & Supplies		3,000
Gas Fuel & Lube		1,500
Materials & Supplies		5,000
Freight & Hauling		2,000
Insurance		7,245
Rate Case Amortization		24,200
Legal Expense		1,449
Engineer & Other Professional		3,000
Other Expenses		500

Total O & M	\$	1,207,973
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Number of months in a year		12
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Working Cash	\$	100,664
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**DOCKET NO. 2007-0198**  
**KUKIO UTILITY COMPANY**  
**REVENUE REQUIREMENTS - SEWER**  
**TEST YEAR ENDED DECEMBER 31, 2008**

	Present Rates	Additional Amount	Proposed Rates
<b>REVENUES</b>			
Stand By Charges - Res.	\$ 80,700	\$ 6,306	\$ 87,006
Stand By Charges - Comm.	30,000	2,334	32,334
WasteWater Treatment Chg.	662,067	52,017	714,084
WasteWater Power Cost	89,355	(89,355)	-
Imputed Rev. - Kua Bay Beach	6,900	542	7,442
Rounding	126	126	126
Total Operating Revenues	<u>869,022</u>	<u>(28,030)</u>	<u>840,992</u>
<b>OPERATING &amp; MAINT. EXPENSES</b>			
Electricity Expense	100,755		100,755
Operations Contract	229,444		229,444
System Repair & Maintenance	25,000		25,000
Equipment Maintenance	1,000		1,000
Other Repair & Maintenance	1,500		1,500
Safety Equipment	500		500
Chemicals	1,000		1,000
Treatment Test & Supplies	7,000		7,000
Gas Fuel & Lube	1,500		1,500
Materials & Supplies	2,000		2,000
Freight & Hauling	1,000		1,000
Insurance	8,000		8,000
Rate Case Amortization	17,600		17,600
Legal Expense	1,500		1,500
Engineer & Other Professional	2,000		2,000
Other Expenses	500		500
Water for Treatment	39,696		39,696
Maint. & Trash Removal	4,000		4,000
Lift Station & Force Mn.	56,167		56,167
Total O & M Expenses	<u>500,162</u>	<u>-</u>	<u>500,162</u>
Depreciation	54,562		54,562
TOTIT	55,487	(1,790)	53,697
Income Taxes	98,270	(9,963)	88,307
Total Operating Expense	<u>708,481</u>	<u>(11,753)</u>	<u>696,728</u>
Net Operating Income (Loss)	<u>\$ 160,541</u>	<u>\$ (16,277)</u>	<u>\$ 144,264</u>
Average Rate Base	<u>\$ 1,630,104</u>		<u>\$ 1,630,104</u>
Return on Rate Base	<u>9.85%</u>		<u>8.85%</u>

**DOCKET NO. 2007-0198**  
**KUKIO UTILITY COMPANY**  
**TAXES OTHER THAN INCOME TAXES - SEWER**  
**TEST YEAR ENDED DECEMBER 31, 2008**

	<u>Tax Rates</u>	<u>Present Rates</u>	<u>Additional Amount</u>	<u>Proposed Rates</u>
Total Operating Revenues		<u>\$ 869,022</u>	<u>\$ (28,030)</u>	<u>\$ 840,992</u>
Public Company Service Tax	5.885%	51,142	(1,650)	49,492
Public Utility Fee	0.500%	<u>4,345</u>	<u>(140)</u>	<u>4,205</u>
Total Revenue Taxes	6.385%	<u>\$ 55,487</u>	<u>\$ (1,790)</u>	<u>\$ 53,697</u>

**DOCKET NO. 2007-0198  
KUKIO UTILITY COMPANY  
INCOME TAX EXPENSE - SEWER  
TEST YEAR ENDED DECEMBER 31, 2008**

	<u>Present Rates</u>	<u>Proposed Rates</u>
<b>REVENUES</b>		
Stand By Chg. - Res	\$ 80,700	\$ 87,006
Stand By Chg. - Comm	30,000	32,334
WasteWater Treatment Chg.	662,067	714,084
WasteWater Power Cost	89,355	-
Imputed - Kua Bay Beach	6,900	7,442
Rounding	-	126
Total Operating Revenues	<u>869,022</u>	<u>840,992</u>
<b>OPERATING &amp; MAINT. EXPENSES</b>		
Electricity Expense	100,755	100,755
Operations Contract	229,444	229,444
System Repair & Maintenance	25,000	25,000
Equipment Maintenance	1,000	1,000
Other Repair & Maintenance	1,500	1,500
Safety Equipment	500	500
Chemicals	1,000	1,000
Treatment Test & Supplies	7,000	7,000
Gas Fuel & Lube	1,500	1,500
Materials & Supplies	2,000	2,000
Freight & Hauling	1,000	1,000
Insurance	8,000	8,000
Rate Case Amortization	17,600	17,600
Legal Expense	1,500	1,500
Engineer & Other Professional	2,000	2,000
Other Expenses	500	500
Water for Treatment	39,696	39,696
Maint. & Trash Removal	4,000	4,000
Lift Station & Force Mn.	56,167	56,167
Depreciation Expense	54,562	54,562
TOTIT	55,487	53,697
Total O & M Expenses	<u>610,211</u>	<u>608,421</u>
Taxable Income	258,811	232,571
Income Tax Provision		
Effective tax rate of 37.9699%	98,270	88,307
Income Tax Expense	<u>\$ 98,270</u>	<u>\$ 88,307</u>

**DOCKET NO. 2007-0198  
KUKIO UTILITY COMPANY  
AVERAGE RATE BASE - SEWER  
TEST YEAR ENDED DECEMBER 31, 2008**

<b>Description</b>	<b>At 12/31/2006</b>	<b>At 12/31/2007</b>	<b>Average</b>
Plant in Service	\$ 5,715,480	\$ 5,715,480	
Accum. Depreciation	(619,900)	(777,178)	
Net-Plant-in-Service	<u>5,095,580</u>	<u>4,938,302</u>	<u>\$ 5,016,941</u>
Deduct:			
CIAC	-	-	
Accumulated Amortization of CIAC	-	-	
Accumulated Deferred Income Tax	407,546	468,250	
HCGETC			
Subtotal	<u>407,546</u>	<u>468,250</u>	<u>437,898</u>
Subtotal	<u>4,688,034</u>	<u>4,470,052</u>	<u>4,579,043</u>
Average			<u>4,579,043</u>
Less Excess Capacity			
Avg. Daily Use for Three Hightest days	52,033		
x Number of Days Per Year	365		
Test Year Settlement Influent	<u>18,992,045</u>		
less Plant Design Capacity for Test Year	<u>54,750,000</u>		
Test Year Excess Capacity	<u>(35,757,955)</u>		
Excess Usage Capacity:			
(35,757,955 / 54,750,000)	(0.653110)		(2,990,619)
Working Cash at Present Rates			<u>41,680</u>
Rate Base at Present and Proposed Rates			<u>\$ 1,630,104</u>

**DOCKET NO. 2007-0198  
KUKIO UTILITY COMPANY  
WORKING CASH REQUIREMENT - SEWER  
TEST YEAR ENDED DECEMBER 31, 2008**

Operating Expenses		
Electricity Expense	\$	100,755
Operations Contract		229,444
System Repair & Maintenance		25,000
Equipment Maintenance		1,000
Other Repair & Maintenance		1,500
Safety Equipment		500
Chemicals		1,000
Treatment Test & Supplies		7,000
Gas Fuel & Lube		1,500
Materials & Supplies		2,000
Freight & Hauling		1,000
Insurance		8,000
Rate Case Amortization		17,600
Legal Expense		1,500
Engineer & Other Professional		2,000
Other Expenses		500
Water for Treatment		39,696
Maint. & Trash Removal		4,000
Lift Station & Force Mn.		56,167
		-
Total O & M	\$	500,162
Number of months in a year		12
Working Cash	\$	<u>41,680</u>

CERTIFICATE OF SERVICE

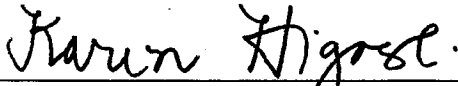
I hereby certify that I have this date served a copy of the foregoing Proposed Decision and Order No. 23975 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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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c/o KUKIO UTILITY COMPANY, LLC  
P.O. Box 5349  
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Honolulu, HI 96813

Counsel for Kukio Utility Company, LLC

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

DATED: January 18, 2008