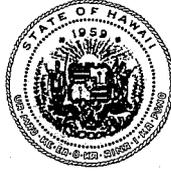


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GOVERNOR



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PUBLIC UTILITIES COMMISSION

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July 6, 2015

The Honorable Ronald D. Kouchi
President of the Senate
State Capitol, Room 409
415 South Beretania Street
Honolulu, Hawaii 96813

The Honorable Joseph M. Souki
Speaker of the House
State Capitol, Room 431
Honolulu, Hawaii 96813

Re: Docket No. 2012-0147, Waikoloa Sanitary Sewer Company, Inc., dba West Hawaii Sewer Company – Application for Approval of a General Rate Increase and Other Related Matters

Dear Senate President Kouchi and House Speaker Souki:

The Public Utilities Commission (“Commission”) respectfully submits this report in accordance with Hawaii Revised Statutes (“HRS”) § 269-16(f)(3). With respect to a public utility’s completed rate case application filed with the Commission, HRS § 269-16(f)(3) states in relevant part that the Commission shall:

(3) Make every effort to complete its deliberations and issue a proposed decision and order within six months from the date the public utility files its completed application with the commission; provided that all parties to the proceeding strictly comply with the procedural schedule established by the commission and no person is permitted to intervene. If a proposed decision and order is rendered after the six-month period, the commission shall report in writing the reasons therefor to the legislature within thirty days after rendering the proposed decision and order.

HRS § 269-16(f)(3) (emphasis added).

The Parties in this rate case proceeding are West Hawaii Sewer Company (“WHSC”) and the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy (“Consumer Advocate”), an ex officio party, pursuant to HRS § 269-51 and Hawaii Administrative Rules § 6-61-62(a).

WHSC is a public utility that provides wastewater treatment service to residences, condominiums, and commercial establishments in the greater Waikoloa Village area in South Kohala.

The Honorable Ronald D. Kouchi
The Honorable Joseph M. Souki
July 6, 2015
Page 2

The procedural background includes the following:

1. On August 29, 2012, WHSC filed its completed application for a general rate increase and other related matters, based on the July 1, 2012 – June 30, 2013 test year (“Test Year”).
2. On January 16, 2013, the Consumer Advocate filed its direct testimonies and exhibits.
3. Thereafter, the Parties commenced settlement discussions. As a result, on November 15, 2013, the Parties filed their Stipulation for Full Settlement (“Settlement Agreement”). WHSC entered into and filed the Settlement Agreement in lieu of filing its rebuttal testimonies.
4. The Parties subsequently filed a “Joint Supplemental Stipulation of the Parties” on April 28, 2015 (“Supplemental Stipulation”).
5. On June 22, 2015, the Commission issued its Decision and Order No. 32926, approving an increase of \$673,996, or approximately 68.4% over revenues at present rates for WHSC, based on a total Test Year revenue requirement of \$1,658,850. In so doing, the Commission approved the Parties’ Settlement Agreement and Supplemental Stipulation.

A copy of the Commission’s Decision and Order No. 32926 is enclosed for your information.

Initially, the six-month deadline for the Commission to issue its decision and order was February 28 2013, pursuant to HRS § 269-16(f)(3).¹ However, the Commission approved numerous requests to extend certain procedural deadline dates, including the date for the Parties to file their settlement agreement, if any, until November 15, 2013. As a result, WHSC: (1) did not strictly comply with the Commission’s procedural time schedule; and (2) waived the Commission’s issuance of its decision and order by February 28, 2013.²

¹See Amended Stipulated Prehearing Order No. 30850, filed on November 27, 2012, Exhibit A, at 2.

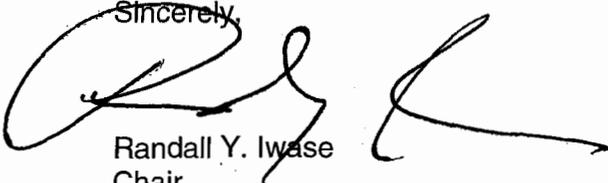
²See (1) “Order No. 30947, Granting the Consumer Advocate’s Extension Request, Filed on January 4, 2013,” filed on January 15, 2013; (2) “Order No. 30969, Granting Waikoloa Sanitary Sewer Co., Inc.’s Extension Request, Filed on January 23, 2013,” filed on February 1, 2013; (3) “Order No. 31111, Approving West Hawaii Sewer Company’s Third Request to Modify Stipulated Regulatory Schedule,” filed on March 12, 2013; (4) “Order No. 31159, Approving West Hawaii Sewer Company’s Fourth Request to Modify Stipulated Regulatory Schedule,” filed on April 8, 2013; (5) “Order No. 31227, Approving West Hawaii Sewer Company’s Fifth Request to Modify Stipulated Regulatory Schedule,” filed on May 15, 2013; (6) “Order No. 3296, Approving West Hawaii Sewer Company’s Sixth Request to Modify Stipulated Regulatory Schedule,” filed on June 13, 2013; (7) “Order No. 31388,

The Honorable Ronald D. Kouchi
The Honorable Joseph M. Souki
July 6, 2015
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In summary, the Parties' actions resulted in WHSC's waiver of, and the Commission's inability to comply with, the initial February 28, 2013 deadline for issuance of the Commission's decision and order, i.e., within the six-month period set forth in HRS § 269-16(f)(3).

Thank you for the opportunity to submit this report. Should you have any questions regarding this matter, please contact me, or Melissa M. Mash, Commission Counsel, at 586-2020.

Sincerely,

A handwritten signature in black ink, appearing to read 'Randall Y. Iwase', written over a horizontal line.

Randall Y. Iwase
Chair

RYI:sr

Enclosure

c: Pamela J. Larson, Esq./David Y. Nakashima, Esq. (w/o enclosure)
Jeffrey T. Ono, Division of Consumer Advocacy (w/o enclosure)

Approving West Hawaii Sewer Company's Seventh Request to Modify Stipulated Regulatory Schedule," filed on August 2, 2013; (8) "Order No. 31425, Approving West Hawaii Sewer Company's Eighth Request to Modify Stipulated Regulatory Schedule," filed on August 27, 2013; (9) "Order No. 31486, Approving Consumer Advocate's Second Request to Modify Stipulated Regulatory Schedule," filed on October 10, 2013; (10) "Order No. 31637, Approving Consumer Advocate's Third Request to Modify Stipulated Regulatory Schedule," filed on October 29, 2013; and (11) "Order No. 31649, Approving West Hawaii Sewer Company's Ninth Request to Modify Stipulated Regulatory Schedule" filed on November 14, 2013.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)

WAIKOLOA SANITARY SEWER)
COMPANY, INC., dba)
WEST HAWAII SEWER COMPANY)

DOCKET NO. 2012-0147

For A General Rate Increase and for)
Approval of Revisions to its)
Tariff.)

DECISION AND ORDER NO. 32926

PUBLIC UTILITIES
COMMISSION

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)

WAIKOLOA SANITARY SEWER)
COMPANY, INC., dba)
WEST HAWAII SEWER COMPANY)

Docket No. 2012-0147

Decision and Order No. 32926

For A General Rate Increase and for)
Approval of Revisions to its)
Tariff.)

DECISION AND ORDER

By this Decision and Order ("Order"), the commission approves an increase of \$673,996, or approximately 68.4% over revenues at present rates, for WAIKOLOA SANITARY SEWER COMPANY, INC., dba WEST HAWAII SEWER COMPANY ("WHSC" or "Applicant"), based on a total revenue requirement of \$1,658,850 for the July 1, 2012, to June 30, 2013 test year.¹

The commission issues this Order as mandated by Act 168, Session Laws of Hawaii 2004 ("Act 168"), codified at Hawaii Revised Statutes ("HRS") § 269-16(f), and in response to the Application

¹The Parties are WHSC and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"), an ex officio party, pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules § 6-61-62(a). No persons moved to intervene or participate in this proceeding.

of WHSC, filed on August 29, 2012.² Among other things, in this Order, the commission approves the Parties' "Stipulation for Full Settlement"³ as well as the "Joint Supplemental Stipulation of the Parties."⁴ The commission, in approving the Stipulation and Supplemental Stipulation, instructs WHSC to file its revised tariff sheets for the commission's review and approval, consistent with the applicable terms of this Order.

The commission issues this Order in accordance with HRS § 269-16(d).

²WHSC's Application, Verification, Exhibits WHSC 1 through 12, Exhibits WHSC-T-100 through WHSC-T-400, and Certificate of Service, filed on August 29, 2012 (collectively, the "Application").

³"Stipulation of the Parties for Full Settlement"; Exhibits A and B; and Certificate of Service (collectively "Stipulation"), filed on November 15, 2013.

⁴On April 28, 2015, the Parties filed a "Joint Supplemental Stipulation of the Parties"; Exhibits A through C; and Certificate of Service (collectively "Supplemental Stipulation"), wherein they set forth their agreements to: (1) remove the cost of service study from test year expenses, consistent with the commission's decisions in the rate cases of WHSC's affiliates (Docket Nos. 2012-0148 and 2011-0331), and (2) effect the removal of that expense on the Test Year revenue requirement. The Parties also provided an additional explanation and correction of test year labor expense.

I.

Background

WHSC

West Hawaii Sewer Company, a Hawaii corporation, is a public utility that provides wastewater treatment service to the residences, condominiums, and commercial establishments in the greater Waikoloa Village area in South Kohala, Island of Hawaii.⁵ The southern most portion of the service area is served by the Auwaiakeakua Water Reclamation Plant or A-Plant, and the northern most portion of the service area is served by the Kamakoa Water Reclamation Plant or K-Plant.⁶ Applicant's customers consist of "approximately 218 single family, 1,202 multi-family, seven (7) commercial, and four (4) public authority customers."⁷

⁵Application at 2-3.

⁶Application, Exhibit WHSC 1 at 1, which further indicates that the A-Plant currently has an average daily capacity of 530,000 gallons per day. Wastewater is collected by approximately 24,000 lineal feet of gravity sewer line and 123 manholes, and is delivered to the A-Plant. Approximately 8,400 lineal feet of sanitary sewer lines and 49 manholes make up the K-Plant's sewer collection system. The existing K-Plant cannot consistently produce effluent that is less than 30 mg/l suspended solids and 30 mg/l biochemical oxygen demand, which is required by the Hawaii State Department of Health ("DOH") regulations relating to effluent production. The A new plant that is being built on the existing plant site is expected to address the flow capacity and effluent quality limitations. It is expected to have an initial treatment capacity of 200,000 gallons per day and produce effluent that meets DOH requirements. Application, Exhibit WHSC 1 at 1-3.

⁷Application, at 3.

West Hawaii Utility Company ("WHUC") and West Hawaii Water Company ("WHWC") are utilities that are affiliated with WHSC. WHUC provides potable water service, sewage treatment service, and irrigation water service to the Waikoloa Beach Resort area, and WHWC provides water service within the Waikoloa Village service area. On average, WHSC treated approximately 250,000 gallons of wastewater per day during the calendar year ending December 31, 2011.⁸

Applicant is wholly owned by Hawaii Water Service Company, Inc. ("HWSC"), which owns several water and wastewater operations within the State.⁹ On the island of Maui, HWSC provides: (1) potable water service within its Ka'anapali service area (i.e., HWSC's Kaanapali Division);¹⁰ and (2) wastewater collection

⁸Application, at 3.

⁹See In re Waikoloa Water Co., Inc., Waikoloa Sanitary Sewer Co., Inc., Waikoloa Resort Util., Inc., and Hawaii Water Serv. Co., Inc., Docket No. 2008-0018 ("Docket No. 2008-0018"), Decision and Order, filed on August 20, 2008 (approving the sale of all the outstanding and issued stock of WHWC, WHSC, and WHUC to HWSC, and related matters, subject to certain conditions); "Order Granting Division of Consumer Advocacy's Motion for Clarification and/or Modification of the Commission's Decision and Order Issued on August 20, 2008 in the Above Docketed Matter," filed on September 24, 2008 ("September 24, 2008 Order"); and "Order (1) Granting Applicants' Motion for Clarification and/or Modification of the Commission's Order Granting Division of Consumer Advocacy's Motion for Clarification and/or Modification of the Commission's Decision and Order Issued on August 20, 2008, filed on October 6, 2008 and (2) Approving Revised Tariff Sheets Filed February 9, 2009," filed on March 12, 2009 ("March 12, 2009 Order").

and treatment services within its Pukalani service area (i.e., HWSC's Pukalani Division).¹¹

On the island of Hawaii, HWSC is the owner of three public utilities - WHWC, WHSC, and WHUC;¹² and HWSC's wholly owned subsidiary, Kona Water Service Company, Inc., is a public utility providing water and wastewater services (Kona Water and Kona Waste Water, respectively).¹³ HWSC is a wholly owned subsidiary of California Water Service Group ("CWSG"), a holding company incorporated in Delaware. Besides HWSC, California Water Service Group's operating subsidiaries in the continental United States include California Water Service Company (water service), New Mexico Water Service Company (water and wastewater services), and Washington Water Service Company (water and wastewater services).¹⁴

¹⁰In re Kaanapali Water Corp., Docket No. 3700, Decision and Order No. 6230, filed on June 9, 1980.

¹¹In re Pukalani STP Co., Ltd., and Hawaii Water Serv. Co., Inc., Docket No. 2007-0238, Decision and Order, filed on June 12, 2008.

¹²See Docket No. 2008-0018, Decision and Order, filed on August 20, 2008; September 24, 2008 Order; and March 12, 2009 Order.

¹³See In re Kukio Util. Co., LLC, and Kona Water Serv. Co., Inc., Docket No. 2008-0109, Decision and Order, filed on December 1, 2008.

¹⁴Application, at 4.

WHSC's existing utility rates and charges are based upon the commission's Order No. 23635, filed on September 7, 2007, in Docket No. 2000-0440.¹⁵

A.

West Hawaii Sewer Company's 2001 Test Year Rate Case (Docket No. 2000-0440) and its 2006 Test Year Rate Case (Docket No. 2005-0329)

Written orders and decisions issued by the commission in two of WHSC's past rate cases, In re Waikoloa Sanitary Sewer Co., Inc., Docket No. 2000-0440 ("Docket No. 2000-0440") (2001 calendar test year), and In re Waikoloa Sanitary Sewer Co., Inc., Docket No. 2005-0329 ("Docket No. 2005-0329") (2006 calendar test year), were appealed by WHSC to the Hawaii appellate courts. WHSC and the Consumer Advocate were the parties in Dockets No. 2000-0440 and 2005-0329.

1.

Docket No. 2000-0440
(WHSC's 2001 Test Year Rate Case)

The commission, by its Decision and Order No. 19223, filed on February 27, 2002, in Docket No. 2000-0440, adjudicated numerous disputed issues, including the Contributions In Aid Of Construction ("CIAC") income tax gross-up issue.

¹⁵Application, at 6, and at Exhibit WHSC 4.

In general, the CIAC income tax gross-up issue arose out of certain changes to the federal tax code, as a result of which, the CIAC funds WHSC received from 1987 through June 11, 1996, were considered taxable income.

With respect to this disputed issue, the commission held that the remaining balance WHSC had collected from contributors for the income tax portion of CIAC, and which was not remitted by WHSC to any taxing authority, did not qualify as CIAC for ratemaking purposes. Thus, the commission instructed WHSC to refund the remaining balance to the contributors. In support of its decision, the commission reasoned that the remaining balance represented the amount WHSC had collected from contributors for the payment of income taxes for the various projects pursuant to which CIAC was assessed.

Thereafter, on April 10, 2002, the commission, by Order No. 19294, denied WHSC's motion for reconsideration.

On May 9, 2002, WHSC appealed Decision and Order No. 19223 and Order No. 19294 to the Hawaii Supreme Court, asserting that the funds it had collected from contributors for the CIAC income tax gross-up portion qualified as CIAC for ratemaking purposes, and thus, was non-refundable pursuant to its CIAC Tariff Rule XI. On December 29, 2005, the Hawaii Supreme Court issued its decision, reversing Decision and Order No. 19223 and Order No. 19294, and remanding the case to the commission for

appropriate disposition. The Hawaii Supreme Court held that pursuant to the filed-tariff doctrine (i.e., the filed-rate doctrine), the income tax gross-up portion was CIAC, and thus, non-refundable.¹⁶

Upon remand to the commission, the Consumer Advocate asserted that as a result of the Hawaii Supreme Court's decision, WHSC needed to recalculate its 2001 test year revenue requirement, and include the CIAC income tax gross-up component as a reduction to WHSC's 2001 test year rate base. Such action, the Consumer Advocate reasoned, would result in: (1) reducing WHSC's monthly standby (i.e., fixed) charge; and (2) a refund to WHSC's ratepayers. In 2007 and 2008, the commission issued additional orders in response to the Consumer Advocate's position.¹⁷

On January 28, 2009, WHSC appealed the commission's additional orders to the Hawaii Intermediate Court of Appeals ("ICA"), in In re Waikoloa Sanitary Sewer Co., Inc., ICA Appeal No. 29607.

¹⁶In re Waikoloa Sanitary Sewer Co., Inc., 109 Hawaii 263, 125 P.3d 484 (2005), as corrected on February 2, 2006.

¹⁷See Docket No. 2000-0440, Order No. 23635, filed on September 7, 2007; Order No. 23939, filed on December 28, 2007; and Order Approving Joint Refund Proposal, filed on December 30, 2008.

2.

Docket No. 2005-0329
(WHSC's 2006 Test Year Rate Case)

In Docket No. 2005-0329, commission issued its Decision and Order on September 23, 2008, approving an increase in revenues over present rates for WHSC. The commission subsequently issued an "Order Denying the [Consumer Advocate's] Motion for Partial Reconsideration and Modification, and Approving [WHSC's] Refund Plan," on December 17, 2008.

On December 19, 2008, WHSC appealed the commission's Decision and Order to the ICA, in In re Waikoloa Sanitary Sewer Co., Inc., ICA Appeal No. 29534.

3.

Dismissal of Both Appeals

On April 27, 2009, the ICA consolidated both appeals (Nos. 29607 and 29534) into Consolidated Appeal No. 29534.

Subsequently, on October 22, 2009, WHSC, the Consumer Advocate, and WHSC's affiliate entities, WHWC and WHUC, entered into an out-of-court Global Settlement Agreement ("Global Settlement") for the purpose of resolving their differences with respect to the ratemaking treatment of CIAC by WHSC, WHWC, and WHUC. A copy of the Global Settlement is attached as Exhibit WHSC-T-301 to the Application.

While the scope of Consolidated Appeal No. 29534 was essentially limited to the ratemaking treatment of WHSC's CIAC income tax gross-up balance, the scope of the Global Settlement covered said subject-matter plus other CIAC matters, including the ratemaking treatment of deferred CIAC credits.

As a result of the Global Settlement, WHSC and the Consumer Advocate agreed to dismiss Consolidated Appeal No. 29534.

The parties in Consolidated Appeal No. 29534 were limited to appellant WHSC, and the Consumer Advocate and the commission, as co-appellees. WHWC and WHUC were not parties to Consolidated Appeal No. 29534. Nonetheless, the stipulating parties to the Global Settlement consisted of WHSC, WHWC, WHUC, and the Consumer Advocate.

On October 30, 2009, the ICA approved WHSC's and the Consumer Advocate's stipulation to dismiss Consolidated Appeal No. 29534 with prejudice.¹⁸

The Global Settlement is distinct from the Stipulation and Supplemental Stipulation directly at issue here, which resolve the differences between WHSC and the Consumer Advocate relating to the specific issues and facts in this docket. The Stipulation and Supplemental Stipulation are discussed in greater detail below.

¹⁸See Exhibit WHSC-T-300, at 2-3; and ICA Consolidated Appeal No. 29534.

B.

Application

On July 18, 2012, the commission granted WHSC's motion to waive the requirement to utilize the 2013 calendar test year. As a result, the commission authorized WHSC to utilize the July 1, 2012, to June 30, 2013 test year (the "Test Year") in its forthcoming application for a general rate case.¹⁹

On August 29, 2012, WHSC filed its Application, requesting that the commission approve a net revenue increase of \$1,378,084 for its operations, i.e., an approximate increase of 141.7% from the pro forma revenue amount of \$972,322 at present rates for the Test Year.

WHSC specifically proposes to increase its wastewater service charges (the monthly charge per living unit for single-family residences, condominiums, and hotels, and the monthly charge per equivalent residential unit) and sewer quantity charge (the quantity charge that is assessed per 1,000 gallons ("TG") of water), by a total increase of approximately 142% for each applicable charge, via a three-step phase-in approach.

¹⁹Order No. 30531, Granting West Hawaii Sewer Company's Motion to Waive the Requirement to Utilize the 2013 Calendar Test Year, filed on July 18, 2012.

C.

Public Hearing

The commission's "Notice of Public Hearing" was published in accordance with HRS §§ 1-28.5 and 269-12(c).²⁰ On October 17, 2012, the commission held a public hearing on the relief requested by WHSC at Waikoloa Elementary School, island of Hawaii, in accordance with HRS § 269-16(b). WHSC's representative, the Consumer Advocate, and members from the public appeared and testified. In general, the testimony from members of the public included concerns with, and opposition to, WHSC's proposal to increase its rates and charges as well as the magnitude of the proposed increases.²¹

D.

Procedural Background

On January 16, 2013, the Consumer Advocate filed its direct testimonies and exhibits. Thereafter, the Parties commenced settlement discussions. As a result, on November 15, 2013, the Parties filed the above-referenced Stipulation.

²⁰Specifically, the commission's Notice of Public Hearing was published on September 25, 2012, and October 2, 9, and 16, 2012 in the Hawaii Tribune Herald and in the West Hawaii Today.

²¹See Transcript of the October 19, 2012 Public Hearing; and Commission's letter dated October 24, 2012 (forwarding the written comments submitted at the public hearing).

WHSC entered into and filed the Stipulation in lieu of filing its rebuttal testimonies. The Parties subsequently filed the Supplemental Stipulation on April 28, 2015.

II.

Issues

As set forth in the commission's "Amended Stipulated Prehearing Order No. 30850," filed on November 27, 2012, the issues in this proceeding are:

1. Whether WHSC's proposed rate increases are reasonable.
 - A. Whether the proposed tariffs, rates, and charges are just and reasonable.
 - B. Whether the Test Year revenue forecasts at present and proposed rates are reasonable.
 - C. Whether the projected Test Year operating expenses are reasonable.
 - D. Whether the projected Test Year rate base is reasonable, and are the properties included in rate base used or useful for public utility purposes.
 - E. Whether the requested rate of return is fair.
2. Whether the commission should approve WHSC's request to establish a Power Cost Adjustment Factor.
3. Whether the commission should approve WHSC's other proposed changes to its Tariff No. 1.

See Amended Stipulated Prehearing Order No. 30850, at 3.

III.

Findings And Conclusions

HRS § 269-16 states in relevant part:

Regulation of utility rates; ratemaking procedures. (a) All rates, fares, charges, classifications, schedules, rules, and practices made, charged, or observed by any public utility or by two or more public utilities jointly shall be just and reasonable and shall be filed with the public utilities commission. The rates, fares, classifications, charges, and rules of every public utility shall be published by the public utility in such manner as the public utilities commission may require, and copies shall be furnished to any person on request.

To the extent the contested case proceedings referred to in chapter 91 are required in any rate proceeding to ensure fairness and to provide due process to parties that may be affected by rates approved by the commission, the evidentiary hearings shall be conducted expeditiously and shall be conducted as a part of the ratemaking proceeding.

(b) No rate, fare, charge, classification, schedule, rule, or practice, other than one established pursuant to an automatic rate adjustment clause previously approved by the commission, shall be established, abandoned, modified, or departed from by any public utility, except after thirty days' notice to the commission as prescribed in section 269-12(b), and prior approval by the commission for any increases in rates, fares, or charges A contested case hearing shall be held in connection with any increase in rates, and the hearing shall be preceded by 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 commission, upon notice to the public utility, may:

- (1) Suspend the operation of all or any part of the proposed rate, fare, charge, classification, schedule, rule, or practice or any proposed abandonment or modification thereof or departure therefrom;
- (2) After a hearing, by order:
 - (A) Regulate, fix, and change all such rates, fares, charges, classifications, schedules, rules, and practices so that the same shall be just and reasonable;
 - (B) Prohibit rebates and unreasonable discrimination between localities or between users or consumers under substantially similar conditions;
 - (C) Regulate the manner in which the property of every public utility is operated with reference to the safety and accommodation of the public;
 - (D) Prescribe its form and method of keeping accounts, books, and records, and its accounting system;
 - (E) Regulate the return upon its public utility property;
 - (F) Regulate the incurring of indebtedness relating to its public utility business; and
 - (G) Regulate its financial transactions; and

(3) Do all things that are necessary and in the exercise of the commission's power and jurisdiction, all of which as so ordered, regulated, fixed, and changed are just and reasonable, and provide a fair return on the property of the utility actually used or useful for public utility purposes.

.....

(d) The commission shall make every effort to complete its deliberations and issue its decision as expeditiously as possible and before nine months from the date the public utility filed its completed application; provided that in carrying out this mandate, the commission shall require all parties to a proceeding to comply strictly with procedural time schedules that it establishes. If a decision is rendered after the nine-month period, the commission shall report in writing the reasons therefor to the legislature within thirty days after rendering the decision.

Notwithstanding subsection (c), if the commission has not issued its final decision on a public utility's rate application within the nine-month period stated in this section, the commission, within one month after the expiration of the nine-month period, shall render an interim decision allowing the increase in rates, fares and charges, if any, to which the commission, based on the evidentiary record before it, believes the public utility is probably entitled. The commission may postpone its interim rate decision for thirty days if the commission considers the evidentiary hearings incomplete. In the event interim rates are made effective, the commission shall require by order the public utility to return, in the form of an adjustment to rates, fares, or charges to be billed in the future, any amounts with interest, at a rate equal to the rate of return on the public utility's

rate base found to be reasonable by the commission, received under the interim rates that are in excess of the rates, fares, or charges finally determined to be just and reasonable by the commission. Interest on any excess shall commence as of the date that any rate, fare, or charge goes into effect that results in the excess and shall continue to accrue on the balance of the excess until returned.

Initially, the six-month deadline for the commission to issue its proposed decision and order was February 28, 2013, pursuant to HRS § 269-16(f)(3).²² Nonetheless, the commission approved numerous requests to extend certain procedural deadline dates, including the date for the Parties to file their settlement agreement, if any, ultimately until November 15, 2013. As a result, WHSC waived the commission's issuance of its decision and order by February 28, 2013.²³

²²See Amended Stipulated Prehearing Order No. 30850, Exhibit A, at 2.

²³See (1) "Amended Stipulated Prehearing Order No. 30850," filed on November 27, 2012; (2) "Order No. 30947, Granting the Consumer Advocate's Extension Request, Filed on January 4, 2013," filed on January 15, 2013; (3) "Order No. 30969, Granting Waikoloa Sanitary Sewer Co., Inc.'s Extension Request, Filed on January 23, 2013," filed on February 1, 2013; (4) "Order No. 31111, Approving West Hawaii Sewer Company's Third Request to Modify Stipulated Regulatory Schedule," filed on March 12, 2013; (5) "Order No. 31159, Approving West Hawaii Sewer Company's Fourth Request to Modify Stipulated Regulatory Schedule," filed on April 8, 2013; (6) "Order No. 31227, Approving West Hawaii Sewer Company's Fifth Request to Modify Stipulated Regulatory Schedule," filed on May 15, 2013; (7) "Order No. 3296, Approving West Hawaii Sewer Company's Sixth Request to Modify Stipulated Regulatory Schedule," filed on June 13, 2013; (8) "Order No. 31388, Approving West Hawaii Sewer Company's Seventh Request to Modify

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, 447, 698 P.2d 304, 307 (1985).

With this mandate, the commission proceeds to determine whether the rates and other tariffs proposed in the Application are just and reasonable, taken as a whole.

A.

Stipulation of the Parties for Full Settlement

1.

Terms and Conditions

The Stipulation, which represents the Parties' global settlement of all issues, consists of three parts: (1) the text of the Parties' global settlement; (2) Exhibit A, the Parties' supporting schedules; and (3) Exhibit B, "additional information

Stipulated Regulatory Schedule," filed on August 2, 2013; (9) "Order No. 31425, Approving West Hawaii Sewer Company's Eighth Request to Modify Stipulated Regulatory Schedule," filed on August 27, 2013; (10) "Order No. 31486, Approving Consumer Advocate's Second Request to Modify Stipulated Regulatory Schedule," filed on October 10, 2013; (11) "Order No. 31637, Approving Consumer Advocate's Third Request to Modify Stipulated Regulatory Schedule," filed on October 29, 2013; and (12) "Order No. 31649, Approving West Hawaii Sewer Company's Ninth Request to Modify Stipulated Regulatory Schedule" filed on November 14, 2013.

and arguments submitted by WHSC to explain or support WHSC's settlement positions."²⁴ The Parties explain that "Exhibit B is not intended to reflect the Consumer Advocate's position, except where expressly noted in the schedules to Exhibit B or this Stipulation."²⁵

In reaching their global settlement:

The Parties agree that the following provisions of this Stipulation are binding as between them with respect to the specific issues and matters to be resolved in the subject docket. In all respects, it is understood and agreed that the agreements evidenced in this Stipulation represent 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 the proceeding, and are not meant to be an admission by either of the Parties as to the acceptability or permissibility of matters stipulated to herein. The Parties reserve their respective rights to proffer, use and defend different positions, arguments, methodologies, or claims regarding the matters stipulated to herein in other dockets or proceedings. Furthermore, the Parties agree that nothing contained in this 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, and except as may be specifically agreed to herein.²⁶

²⁴Stipulation, at 6.

²⁵Stipulation, at 6 n.2.

²⁶Stipulation, at 7-8.

Ultimately, the Parties acknowledge that the Stipulation is subject to the commission's review and approval, and that the commission is not bound by the Stipulation.²⁷

On April 28, 2015, the Parties filed the Supplemental Stipulation, wherein they set forth their agreements to: (1) remove the cost of service study from test year expenses, consistent with the commission's decisions in the rate cases of WHSC's affiliates (Docket Nos. 2012-0148 and 2011-0331), and (2) effect the removal of that expense from the Test Year revenue requirement. The Parties also provided an additional explanation and correction of test year labor expense.

2.

Non-Waiver of the Evidentiary Hearing

As set forth in Section VII of the Stipulation, the Parties appear to reserve their right to an evidentiary hearing:

Each provision of the Stipulation is in consideration and support of all other provisions, and is expressly conditioned upon acceptance by the Commission of the matters expressed in this Stipulation in their entirety. In the event the Commission declines to adopt parts or all of the matters agreed to by the Parties and set forth in this

²⁷See Stipulation, at 3, and Section VII, Stipulation as a Whole, at 75.

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, including the right to an evidentiary hearing.

Stipulation, Section VII, Stipulation as a Whole, at 75.

Here, the commission approves the Stipulation, to the extent it is consistent with the terms of this Order. Accordingly, in the event WHSC requests an evidentiary hearing by filing an extended Stipulated Regulatory Schedule, the commission reserves the right to modify or reverse any of the rulings made in this Order.

3.

Summary

WHSC's public utility operations consist of its wastewater services.

The Parties reached agreement on WHSC's Test Year revenues and expenses at present rates, average rate base balance, and rate of return. As a result, the Parties stipulated to an increase of \$673,996, or approximately 68.4% over revenues at present rates for WHSC, based on a total Test Year revenue requirement of \$1,658,850. The Parties agreed to implement the stipulated increase in revenues by a 68.4% increase in WHSC's wastewater rates and charges, via a two-part phase-in.

WHSC proposed to adopt a Power Cost Charge in lieu of the Power Cost Adjustment Factor originally proposed in the Application. The Consumer Advocate did not object to WHSC's proposal to establish a Power Cost Charge.²⁸

Finally, the Parties stipulated to certain revisions to WHSC's existing tariff rules governing CIAC (Rule XI (Facilities Charge)), and system extensions (Rule XII).

B.

Operating Revenues at Present Rates

WHSC's existing rate design consists of the following rates and charges: a monthly fixed charge per living unit (residential single-family and multi-family customers) or per equivalent residential unit (commercial customers), plus a monthly quantity charge measured on a per TG basis.

Based on WHSC's existing rate design, the Parties stipulate to a total sum of \$984,855 in operating revenues at present rates, as follows:

<u>Wastewater Operations</u>	<u>Operating Revenues at Present Rates</u>
Fixed charge	\$655,220
Water quantity charge	<u>\$329,635</u>
Total operating revenues at present rates	\$984,855

²⁸Stipulation, at 71.

The Parties stipulate to the following estimates for WHSC's operating revenues at present rates for its wastewater operations:

<u>Fixed charge</u>	<u>Present Rates</u>
Single-family residential	\$97,689
Multi-family residential	\$528,928
Commercial (public authority)	\$9,241
Commercial (non-restaurant)	<u>\$19,362</u>
Total, fixed charge	\$655,220

<u>Quantity charge</u>	<u>Present Rates</u>
Single-family residential	\$42,951
Multi-family residential	\$243,218
Commercial (public authority)	\$25,327
Commercial (non-restaurant)	<u>\$18,139</u>
Total, quantity charge	\$329,635 ²⁹
Total wastewater revenues	\$984,855

The Parties' stipulated estimates, in turn, are based on the following customer counts for the fixed charge and the following water usage levels for the quantity charge:

²⁹In their Stipulation, at 10, the Parties stipulated to a quantity charge totaling \$329,633, based in part on the Consumer Advocate's estimate of water usage, reflected in the Consumer Advocate's January 16, 2013 Direct Testimonies and Exhibits, at CA-106. However, based upon the figures provided in the Stipulation, Exhibit A, Schedule 8.1, the quantity charge is calculated to be \$329,635, which comports with the Parties' stipulation to the total sum of \$984,855 in operating revenues at present rates.

<u>Category</u>	<u>Customer Count</u>
Single-family residential	222
Multi-family residential	1,202
Commercial (Non-restaurant)	44
Commercial (Restaurant)	0
Commercial (Other)	21
Industrial	<u>0</u>
Total number of meters	1,489

<u>Category</u>	<u>Water Usage</u>
Single-family residential	32,294 TG
Multi-family residential	182,871 TG
Commercial (Non-restaurant)	13,638 TG
Commercial (Restaurant)	0 TG
Commercial (Other)	19,043 TG
Industrial	<u>0 TG</u>
Total water consumption	247,846 TG

The following examples illustrate the Parties' methodology for calculating revenues generated from the fixed service charge and the water consumption charge, respectively, at present rates:

Single-Family Residential

Customer Calculation of the fixed service charge
Count revenues at present rates

222 x \$36.67/living unit x 12 months = \$97,689

Calculation of the water consumption charge
revenues at present rates

32,294 TG x \$1.33 per TG = \$42,951

See Stipulation, Section III.B.2, Sales and Revenues, 9-11; and Stipulation, Exhibit A, Schedules 8, 8.1, 8.2, and 10.

Based on the commission's review of the entire record, including the Stipulation and Supplemental Stipulation (hereafter collectively referred to as the "Stipulations"), the commission finds reasonable the Parties' stipulated estimates for WHSC's operating revenues of \$984,855 at present rates for its wastewater operations.

C.

Allocation of Shared Expenses and Plant Costs

To reiterate, HWSC, directly or through its subsidiaries, owns and operates: (1) two systems on Maui (i.e., its Ka'anapali Division's water operations and Pukalani Division's wastewater operations); and (2) seven systems on the island of Hawaii (WHWC's water operations, WHSC's wastewater operations, Kona Water's water operations, Kona Waste Water's wastewater operations, and WHUC's water, wastewater, and irrigation water operations).

While the majority of HWSC's expenses and plant costs associated with operating each system are charged directly to each individual unit, certain expenses and plant costs apply to multiple systems. Accordingly, HWSC uses a four-factor allocation methodology to distribute the shared expenses and plant costs

amongst its Hawaii operating units. Pursuant to its four-factor allocation methodology, which WHSC proposes to use, the four factors used to determine the allocation of general operations costs among its regulated utility companies include number of customer equivalents, gross plant in service, direct operations and maintenance expenses, and direct gross payroll.³⁰

In practical terms, the Hawaii shared expenses and plant costs are organized into four separate pools for allocation into the Hawaii business units: (1) Department 790 - Hawaii General Office: General Administrative; (2) Department 720 - Big Island; (3) Department 796 - Wastewater Administration; and (4) Department 710 - Maui District. However, "[f]or purposes of the three current rate case proceedings, HWSC introduced a fifth expense pool: Department 720A - Waikoloa Districts."³¹ Thus, expenses and plant costs from four departments flow to WHSC's wastewater operations (Departments 790, 720, 720A, and 796).

The percentages allocated to WHSC's wastewater operations for the Test Year, in turn, are as follows:³²

³⁰WHSC-T-100 at 6-7; Stipulation, at 11.

³¹Stipulation, at 12.

³²See Stipulation, at 11-12 (citing to WHSC's Response to CA-IR-18a).

<u>Utility Operation</u>	<u>Department</u>	<u>Percentage Allocated</u>
Wastewater	790	10.46%
	720	15.14%
	720A	19.92%
	796	27.12%

Based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable the use and application of HWSC's four-factor allocation methodology for this rate case proceeding. The commission observes that in two past HWSC rate case proceedings, the commission found reasonable HWSC's use and application of the four-factor allocation methodology for its Ka'anapali and Pukalani Divisions, respectively.³³ Moreover, the Consumer Advocate affirmatively does not take issue with the use and application of HWSC's four-factor methodology or the amount of shared expenses and plant costs that have been allocated in the subject proceeding (Docket No. 2012-0147).³⁴

As a final matter, the Parties "agree that in pending and future rate cases of other HWSC business units, HWSC will

³³See Docket No. 2009-0310, Decision and Order No. 30103, Section II.D, Allocation of Shared Expenses and Plant Costs, at 22-25; and In re Hawaii Water Serv., Co., Inc., Docket No. 2011-0148 ("Docket No. 2011-0148"), Proposed Decision and Order No. 31760, filed on December 23, 2013, Section II.C, Operating Expenses, at 22-24.

³⁴Stipulation, at 12.

use substantially the same methodology to allocate shared expenses as agreed to in this rate case unless either HWSC or the Consumer Advocate presents reasonable justification to change the methodology."³⁵ The commission, in response, makes it clear that: (1) its approval to utilize HWSC's four-factor allocation methodology is limited to this rate case (Docket No. 2012-0147); and (2) any other pending or future rate case involving HWSC's other business units is beyond the scope of the subject proceeding.³⁶

D.

Cost of Service Study

The Parties, as part of their Stipulation, stipulated to: (1) a sum of \$30,000 to recover the cost of a cost-of-service study WHSC agrees to undertake and complete prior to filing its next rate case application; and (2) amortizing the \$30,000 sum

³⁵Stipulation, at 12.

³⁶In accord Docket No. 2009-0310, Decision and Order No. 30103, at 25, n.23; Docket No. 2011-0148, Proposed Decision and Order No. 31760, at 23, n.49; and Docket No. 2011-0331, Decision and Order No. 32107, at 40.

over three years (\$10,000 x 3 years).³⁷ The stipulated sum for WHSC's cost-of-service study was included as part of the Parties' stipulated, overall estimate for WHSC's general and administrative expense.³⁸

In their Supplemental Stipulation, however, the Parties agreed to remove the cost of service study from test year expenses, consistent with the commission's decisions in the rate cases of WHSC's affiliates (Docket Nos. 2012-0148 and 2011-0331).³⁹ Based on its review of the entire record, including the Stipulations, the commission finds reasonable the Parties' agreement to remove the cost of service study from test year expenses.

E.

Operations and Maintenance Expenses at Present Rates

The Parties stipulate to the following consolidated operations and maintenance expense amounts at present rates:⁴⁰

³⁷Stipulation, Section III.D.12.v, General and Administrative Expenses-Cost of Service Study, at 27.

³⁸Stipulation, Exhibit A, Schedule 8.17.

³⁹Supplemental Stipulation at 1.

⁴⁰See Stipulation, Exhibit A, Schedule 6; and Supplemental Stipulation, Exhibit A, schedule 7.10 (Revised).

<u>Expense</u>	<u>Present Rates</u> (Consolidated)
Labor	\$541,728 ⁴¹
Fuel and power	\$219,753
Chemicals	\$14,763
Materials and supplies	\$27,670
Waste/sludge disposal	\$8,831
Affiliated charges	\$20,322
Professional and outside services	\$15,144
Repairs and maintenance	\$1,826
Rental	\$14,217
Insurance	\$6,120
Regulatory	\$23,576
General and administrative	\$37,368
Miscellaneous and other	<u>\$39,627</u>
 Total, operations and maintenance	 \$970,945

In general, WHSC's operations and maintenance expense amounts (excluding regulatory expense) represent the normalized level of funds it will expend during the Test Year to operate and maintain its wastewater operations to provide such public utility services to its customers located within its service area.⁴²

⁴¹Removal of the cost of the cost of service study results in a decrease in the austerity adjustment, and an increase in payroll expense. As reflected in the Stipulation, Exhibit A at 6, the Parties had originally stipulated to Labor Expenses in the amount of \$538,263. However, the Supplemental Stipulation: (1) notes that the Parties discovered an error in the calculation of employee benefits expenses in the Stipulation; and (2) reflects the Parties' subsequent stipulation to Labor Expenses in the amount of \$541,728. This amount illustrates the Parties' application of the recalculated austerity adjustment to payroll, and correction of the employee benefits expenses, which increases total employee benefits expense by \$3,384.

⁴²See Application, Exhibit WHSC-T-200, at 2 (operating expenses are expenditures incurred in operating the wastewater systems, while maintenance expenses include the

Regulatory expense, meanwhile, represents the Parties' agreed-upon amount of expenses incurred by WHSC to process this rate case, amortized over a three-year period.

1.

Labor

WHSC's labor expense is comprised of three accounts: (1) payroll, which consists of expenses incurred for employee salaries and wages; (2) payroll taxes; and (3) employee benefits, which consists of expenses incurred for employee pensions and healthcare and workers' compensation premiums.⁴³

The Parties stipulate to a sum of \$541,728 in labor expense at present rates, as follows:

Payroll	\$311,485
Payroll taxes	\$27,134
Employee benefits	<u>\$203,109</u>
Total labor	\$541,728

The stipulated amount for payroll expense is based on WHSC's Test Year salaries and wages, subject to certain adjustments recommended by the Consumer Advocate, and agreed-upon by WHSC. The stipulated adjustments consist of: (1) removing certain wages

cost of repairing and maintaining the systems to keep them in good operating condition).

⁴³Application, Exhibit WHSC-T-200, at 3-4; and Stipulation, Exhibit A, Schedule 8.3.

WHSC had mistakenly double-counted; (2) removing payroll expenses for two positions that were not filled during the Test Year; and (3) the Parties' agreement to apply a downward austerity adjustment of \$16,589, i.e., an amount which represents one percent of the Parties' stipulated Test Year revenue requirement (i.e., one percent of \$1,658,850).

The stipulated amounts for payroll taxes and employee benefits, in turn, generally correlate to the Parties' agreed-upon amount for payroll expense.⁴⁴

The Consumer Advocate initially recommended that WHSC's recovery for payroll expense be limited to the utility's 2009 expense levels by excluding the costs associated with recent pay increases (i.e., 2010 and 2011) for WHSC's employees. Based on the economic recession and unemployment levels, the Consumer Advocate stated that it was unreasonable to expect WHSC's ratepayers to bear the costs of annual employee pay increases.⁴⁵

WHSC disagreed with the Consumer Advocate's recommendation, countering that 2009 expense levels were not

⁴⁴Stipulation, Section III.D.1, Labor Expense, at 12-15; Stipulation, Exhibit A, Schedule 8.3; and Supplemental Stipulation at 5.

⁴⁵Stipulation, at 13.

used to determine the stipulated amounts for any of the Test Year expenses.⁴⁶

The Parties, as a result of their settlement negotiations, agree to utilize and apply the austerity adjustment in deriving WHSC's labor expense amount. Specifically, "the Parties agreed to apply an 'austerity' adjustment to payroll expenses equal to 1% of revenues at proposed rates."⁴⁷

The commission has previously recognized and applied the concept of a downward austerity adjustment in other rate cases, whereby the public utility-applicant agrees to such an overall adjustment in response to the Consumer Advocate's recommendation.⁴⁸ The amount of the austerity adjustment represents one percent of the Test Year revenue requirement approved by the commission in this Order, calculated as follows:

⁴⁶Stipulation, at 14.

⁴⁷Stipulation, at 14.

⁴⁸See, e.g., In re Hawaii Elec. Light Co., Inc., Docket No. 2009-0164, Decision and Order No. 30168, filed on February 8, 2012, Section II.C.5, Austerity Adjustment, at 40-45 (downward austerity adjustment for the electric utility's 2010 test year rate case); see also In re Hawaiian Elec. Co., Inc., Docket No. 2010-0080, Interim Decision and Order, filed on July 22, 2011, Ordering Paragraph No. 4, at 51 (the electric utility shall reallocate its downward austerity adjustment to reflect cost categories that do not impact service, reliability, and safety, subject to the commission's review) (electric utility's 2011 test year rate case).

<u>Revenues at Approved Rates</u>	x 1% =	<u>Austerity Adjustment</u>
\$1,658,850		\$16,589 ⁴⁹

Based on the commission's review of the entire record, including the Stipulations, the commission, as a result of the various adjustments, finds reasonable the sum of \$541,728 in labor expense at present rates.

2.

Fuel and Power

The Parties stipulate to the amount of \$219,753 in fuel and power expense at present rates. The stipulated amount for fuel and power expense at present rates comprises the major expense component (i.e., 22%) of the Parties' overall, stipulated sum for operations and maintenance expense at present rates. The Parties'

⁴⁹Stipulation at 13-14, which reflects the Parties' agreement to adjust WHSC's payroll expense downward by 1% of the total revenue requirement.

Supplemental Stipulation at 3, which reflects that removal of the expense of the cost of service study and correction of the employee benefit expense, without any change to the austerity adjustment, would result in a revenue requirement of \$1,658,714 (which incorporates changes to taxes and working capital), and an austerity adjustment of \$16,587 (1% x \$1,658,714). Because the austerity adjustment affects labor expense, which is a component of the revenue requirement, an iterative process of calculating the austerity adjustment must be repeated until the austerity adjustment is exactly 1% of the revenue requirement. After repeating this process, the total revenue requirement is \$1,658,850, with a resulting austerity adjustment of \$16,589.

methodology for calculating fuel and power expense at present rates is discussed below.

a. Power

The Parties stipulate to a Test Year electricity expense of \$170,831.⁵⁰ In its Application, WHSC projected a Test Year fuel and power expense of \$240,140 (\$190,715 for electricity and \$49,425 for diesel).⁵¹ WHSC forecasted the purchased power expense by adding 6.53% (increase in average cost per kilowatt hour ("kWh") for January and February 2012 over the average cost per kWh for 2011) to the 2011 actual electricity cost for A-Plant operations.

Because Phase 2 of the A-Plant was placed in service in December of 2009, and usage during 2008 and 2009 would not reflect current operations, the Consumer Advocate recommended an adjustment to this expense. The Consumer Advocate used the 3 year (2010 through 2012) average of kWh usage multiplied by the average kWh cost of 2012 (January through October) to arrive at \$163,150. That amount was then increased by 4.71% (proxy estimate of the increase in electricity expense likely to be experienced between 2012 and 2013) to estimate the increase in fuel expense for the

⁵⁰Stipulation, Exhibit A, Schedule 8.5.

⁵¹Stipulation, at 15.

remainder of the Test Year. This resulted in the Test Year electricity expense of \$170,831.⁵²

b. Fuel

The Parties stipulate to a Test Year diesel expense of \$48,922.⁵³ WHSC's projected Test Year diesel expense of \$49,425 to operate the K-Plant was based on the recorded 2011 diesel expense of \$39,236 multiplied by the prior two-year average increase of diesel from 2009 to 2011 of 25.97%.⁵⁴ WHSC explained that the new K-Plant will be powered by electricity, rather than by diesel. However, the diesel estimate was used for the Test Year, because the plant was expected to be in service toward the end of the Test Year, and there may be a transition period during which power may continue to be supplied at least in part by a generator.

The Consumer Advocate agreed that diesel expenses should be included in the Test Year revenue requirement, as it did not appear that the new K-Plant would be in service in the Test Year. The new K-Plant was placed in service on June 6, 2013, just prior

⁵²Stipulation, at 15-16; and Application, Exhibit A, Schedule 8.5.

⁵³Stipulation, at 16-17; and Application, Exhibit A, Schedule 8.5.

⁵⁴Stipulation, at 16.

to completion of the Test Year.⁵⁵ As such, the Parties agree that diesel expenses should be included in Test Year expenses. WHSC subsequently provided corrected information regarding 2011 diesel expenses, and 2012 diesel information through September 2012, which was used by the Consumer Advocate to compute the Test Year diesel expense of \$48,922 (the annualized 2012 diesel expense of \$46,770 was increased by the actual increase in diesel prices for 2012 of 4.6%), with which WHSC agreed.⁵⁶

The commission accepts the Parties' stipulated sum of \$219,753 in fuel and power expense at present rates for purposes of this proceeding.

3.

Chemicals

The Parties stipulate to a sum of \$14,763 in chemicals expense at present rates.⁵⁷

WHSC had initially proposed a Test Year chemicals expense of \$47,997, but subsequently revised the projection for chemicals to be used by the A-Plant to \$10,004 in the Test Year.⁵⁸

⁵⁵Stipulation, at 16; Exhibit B, Schedule 8.

⁵⁶Stipulation, at 16-17.

⁵⁷Stipulation, Exhibit A, Schedule 8.7.

⁵⁸Stipulation, at 17.

The Consumer Advocate agreed that use of an average of historical expenses was not appropriate for estimating the Test Year chemicals expense, since the new A-Plant was completed in 2009, and the new K-Plant was expected to be completed in the Test Year, and accepted WHSC's revised estimate of \$10,004 for chemicals for the A-Plant. The Consumer Advocate projected the chemical expenses for the K-Plant by averaging the actual amounts used by the K-Plant from 2010 to 2012, resulting in an estimated Test Year expense of \$3,524, and a total chemical expense of \$13,528.⁵⁹

During settlement discussions, WHSC proposed an adjustment to the Consumer Advocate's estimate for the K-Plant, based upon its estimation that 40 units of Vectobac (rather than 20 as originally projected) would be required, resulting in an increase of approximately \$1,200. The Consumer Advocate accepted the adjustment, which resulted in the Parties' stipulated Test Year chemicals expense of \$14,763.⁶⁰

Based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable, the Parties' stipulated amount of \$14,763 in chemicals expense at present rates.

⁵⁹Stipulation, at 17.

⁶⁰Stipulation, at 17-18.

Materials and Supplies

The Parties stipulate to the amount of \$27,670 for Test Year materials and supplies expense at present rates.⁶¹ In its Application, WHSC projected a Test Year materials and supplies expense of \$39,279 (five year average of expenses incurred from 2007 through 2011).⁶² The Consumer Advocate: (1) recommended a Test Year materials and supplies expense of \$22,309, based on adjustments including (a) exclusion of 2007 and 2008 expenses due to the failure to reflect current A-Plant operations, and (b) exclusion of 2009 expenses due to improper recordation of certain expenses because of the transition of accounting records following HWSC's acquisition of WHSC; and (2) recommended taking an average of 2010 and 2011, with an exclusion of approximately \$23,982 from the 2010 expenses, because certain expenses were not annually recurring expenses.⁶³

WHSC agreed with some of the adjustments, but recommended inclusion of 2012 expenses of \$31,390, and removal of \$16,980 from 2010 Treatment & Disposal Maintenance Expense expenses which was attributable to repairing the old K-Plant,

⁶¹Stipulation, at 18.

⁶²Stipulation, at 18.

⁶³Stipulation at 18.

which has since been retired. The adjustments result in a three-year average expense for 2010 through 2012 of \$27,670, to which the Parties stipulated.⁶⁴

Based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable the Parties' stipulated amount of \$27,670 in materials and supplies expense at present rates.

5.

Waste/Sludge Disposal

WHSC projected a waste/sludge disposal expense of \$8,831. This was based on the five (5) year average of actual expenses from 2007 through 2011. The Consumer Advocate did not propose an adjustment to this expense.⁶⁵

The Parties stipulate to a sum of \$8,831 in waste/sludge disposal expense at present rates for WHSC's wastewater operations, an amount that is based on the five-year average of WHSC's actual expenses.

Based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable the

⁶⁴Stipulation, at 18-19.

⁶⁵Stipulation, at 19.

Parties' stipulated amount of \$8,831 in waste/sludge disposal expense at present rates.

6.

Affiliated Charges

WHSC's affiliated charges are allocations of pooled expenses from: (1) its parent entity, California Water Service Group; and (2) its affiliated entity, California Water Service Company. No direct charges are included in the affiliate charges account.⁶⁶

The Parties stipulate to the amount of \$20,322, in affiliated charges expense at present rates. The stipulated amount for WHSC's wastewater operations is calculated based on: (1) eighty percent of the affiliated charges allocated from California Water Service Company to WHSC (\$11,786); (2) one-hundred percent of the affiliated charges allocated from California Water Service Group (\$8,536); and (3) the application of a 3.6% inflationary factor to these respective amounts.⁶⁷

Based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable the

⁶⁶Stipulation, Section III.D.6, Affiliated Charges, at 19-20; see also Application at Exhibit WHSC-T-200, at 6-9.

⁶⁷Stipulation, Section III.D.6, Affiliated Charges, at 19-21; and Stipulation, Exhibit A, Schedule 8.10.

Parties' stipulated amount of \$20,322 in affiliated charges expense at present rates.

7.

Professional and Outside Services

WHSC's professional and outside services are "comprised of technical services, legal fees, accounting, and other consulting services."⁶⁸ The Parties stipulate to the amount of \$15,144 in professional and outside services expense at present rates.⁶⁹ The Parties' stipulated amount is based on the three-year average of costs incurred from 2010 through 2012, subject to certain downward adjustments agreed-upon by the Parties.⁷⁰

Based upon the commission's review of the entire record, including the Stipulations, the commission finds reasonable the Parties' stipulated amount of \$15,144 in professional and outside services expense at present rates.

⁶⁸Application, Exhibit WHSC-T-200, at 9.

⁶⁹Stipulation, Section III.D.7, Professional and Outside Services, at 21-22.

⁷⁰Stipulation, Section III.D.7, Professional and Outside Services, at 21-22; and Stipulation, Exhibit A, Schedule 8.11.

8.

Repairs and Maintenance

The Parties stipulate to the amount of \$1,826 in repairs and maintenance expense at present rates.⁷¹ The Parties' stipulated amount is based upon a five year average of the repair and maintenance expense for 2007 through 2011.⁷²

Based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable the Parties' stipulated amount of \$1,826 in repairs and maintenance expense at present rates.

9.

Rental Expense

Rental expense represents the costs incurred by WHSC for the rental of: (1) its administrative offices in the Waikoloa Highlands Shopping Center (\$8,887); and (2) its base yard (\$6,410).⁷³ The Parties stipulate to the amount of \$14,217. The Parties applied the allocation factors set forth in Department

⁷¹Stipulation, Section III.D.8, Repairs and Maintenance, at 22.

⁷²Stipulation, Section III.D.8, Repairs and Maintenance, at 22; and Stipulation, Exhibit A, Schedule 8.12.

⁷³Application, Exhibit WHSC-T-200, at 10; and Stipulation, Section III.D.9, at 22-23.

720A (Waikoloa Districts) in calculating rental expense for WHSC's wastewater operations.⁷⁴

Based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable the Parties' stipulated amount of \$14,217 in rental expense at present rates.

10.

Insurance Expense

WHSC's insurance expense covers the costs associated with its property and general liability insurance policies.⁷⁵ The Parties stipulate to the amount of \$6,120 in insurance expense at present rates. WHSC's insurance costs are allocated from California Water Service Company to Department 790 (the Hawaii General Office: General Administrative). The Parties applied the allocation factors set forth in Department 790 in calculating insurance expense for WHSC's wastewater operations.⁷⁶

⁷⁴Stipulation, Section III.D.9, Rental Expense, at 23-24; and Stipulation, Exhibit A, Schedule 8.13.

⁷⁵Stipulation, Section III.D.10, Insurance Expense, at 23; and Stipulation, Exhibit A, Schedule 8.14.

⁷⁶Stipulation, Section III.D.10, Insurance Expense, at 23; Stipulation, Exhibit A, Schedule 8.14; see also Application, Exhibit WHSC-T-200, at 10.

Based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable the Parties' stipulated amount of \$6,120 in insurance expense at present rates.

11.

Regulatory
(Rate Case Expense)

The Parties stipulate to \$23,576 in regulatory expense at present rates.

This amount is based on a total regulatory expense amount of \$70,728, amortized over a three-year period. The \$70,728 amount, in turn: (1) consists of the legal fees (95%) and travel expenses (5%) incurred by WHSC to process the subject rate case; and (2) represents WHSC's acceptance of the downward adjustments proposed by the Consumer Advocate, including the exclusion of costs associated with the evidentiary hearing preparation, evidentiary hearing, and post-evidentiary hearing stages. Meanwhile, the three-year amortization period is based on HWSC's commitment to utilize on a prospective basis, a three-year rate case cycle for WHSC's public utility operations.⁷⁷

⁷⁷Stipulation, Section III.D.11, Regulatory Expense, at 24-25; and Stipulation, Exhibit A, Schedule 8.15.

The commission notes that with respect to the \$70,728 in total regulatory expense: (1) The bulk of WHSC's total regulatory expense consists of legal fees incurred by WHSC (95%), and does not include any expenses incurred for outside consultants;⁷⁸ and (2) The Parties' stipulated amount for affiliated charges expense already includes the recovery of costs for "rate case support" provided by WHSC's affiliate, California Water Service Company, to WHSC.⁷⁹

The commission, as part of its review of the overall docket record, accepts the Parties' stipulated total regulatory expense amount of \$70,728, amortized over a three-year period, which results in a regulatory expense of \$23,576 at present rates.

⁷⁸Application, Exhibits WHSC-T-100 (direct testimony of California Water Service Company/HWSC's executive), WHSC-T-200 (direct testimony of WHUC's general manager), WHSC-T-300 (direct testimony of California Water Service Group's corporate counsel), and WHSC-T-400 (direct testimony of HWSC's engineer); and Stipulation, Exhibit A, Schedule 8.15.

⁷⁹Stipulation, at 19-20 (WHSC argued that rate case support is provided by its affiliate, California Water Service Company, and not its parent entity, and such charges are reasonable) (citing to Stipulation, Exhibit B, Schedule 3).

General and Administrative Expense

The Parties stipulated to a sum of \$37,368 in general and administrative expense.⁸⁰

The stipulated sum is comprised of expenses incurred by WHSC for its office operations and matters related thereto, such as office materials and supplies, postage, customer billing and accounts, and employee travel, training, and certification, and professional dues and subscriptions, based on a three-year average from 2010 through 2012. The stipulated sum also included \$30,000 for WHSC's cost of service study, amortized over three years (\$10,000 x 3 years), which the Parties subsequently agreed to remove from test year expenses, pursuant to the Supplemental Stipulation. Conversely, the stipulated sum excludes the cost of a depreciation study that has not been completed or used in calculating the stipulated Test Year revenue requirement for WHSC.⁸¹

⁸⁰Stipulation, at 25-27, which identifies the sum as \$47,368.

Supplemental Stipulation at 2, which reflects the Parties' agreement to remove the sum of \$30,000 for WHSC's cost of service study (amortized over three years) from test year expenses. This results in a sum of \$37,368 in general and administrative expense.

⁸¹Stipulation, Section III.D.12.iv, Depreciation Study, at 27. The commission notes that, at this juncture, a depreciation study has not been filed with the commission. See Docket No. 2011-0331, Decision and Order No. 32107, at 74, n.97 "[WHWC] will submit a

Based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable a sum of \$37,368 in general and administrative expense at present rates. This amount represents the Parties' originally stipulated sum, minus the originally stipulated annual amortized expense for the cost-of-service study that has been removed by the Parties.

13.

Miscellaneous and Other Expense

The Parties stipulate to a sum of \$39,627 in miscellaneous expenses at present rates. The Parties' stipulated sum is based on the three-year average of costs incurred from 2010 to 2012, subject to certain downward adjustments agreed-upon by the Parties.⁸²

Based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable the

copy of HWSC's depreciation study of its entire operations to the commission when it is final)."

⁸²Stipulation, Section III.D.13, Miscellaneous and Other Expense, at 27-29; and Stipulation, Exhibit A, Schedule 8.18, which reflects the Parties' adjustment based on: the Consumer Advocate's recommendation to remove the vehicle and transportation expenses for 2010 and 2011; WHSC's removal of all mileage from other expense categories and reallocation of mileage expenses across HWSC according to the Four Factor methodology; WHSC's agreement to remove any labor expenses from the Miscellaneous and Other Expenses; and the Parties' use of a three year average of 2010 through 2012 expenses to derive Test Year expense.

Parties' stipulated amount of \$39,627 in miscellaneous and other expense at present rates.

F.

Non-Operations/Non-Maintenance Expenses

WHSC's non-operations/non-maintenance expenses consist of income taxes, taxes other than income taxes, and depreciation.

1.

Taxes Other Than Income Taxes ("TOTIT")

WHSC's taxes other than income taxes, otherwise known as revenue taxes, consist of the: (1) State Public Service Company Tax ("PSCT") of 5.885% (see HRS chapter 239); and (2) State Public Utility Fee ("PUC Fee") of 0.50% (see HRS § 269-30).

Based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable the Parties' stipulated amount for TOTIT of \$62,883 at present rates (for revenues of \$984,855) and \$105,918 at approved rates (for revenues of \$1,658,850). The commission's calculation of revenue taxes is set forth in Exhibit A, Page 3 of 5, attached to this Order.

2.

Income Taxes

Based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable, as set forth in Exhibit A, Page 4 of 5, of this Order, income tax expense of (\$128,136) at present rates and \$112,596 at approved rates.

3.

Depreciation

In general, depreciation expense represents the systematic write-off of the cost of a plant's asset over the asset's depreciable life.⁸³ In its Application, WHSC projected a depreciation expense of \$346,541 for the Test Year, less Test Year amortization for CIAC related to those depreciated plant items of \$90,061, plus an adjustment related to the Global Settlement, resulting in a net Test Year depreciation expense of \$247,123. The Consumer Advocate recommended adjusting certain plant costs within the test year's plant-in-service balance, and proposed the depreciation expense of \$186,470.⁸⁴

⁸³Docket No. 2006-0409, Decision and Order No. 24085, at 32.

⁸⁴Stipulation, at 30; and CA-T-3, at 20.

Based on the Parties' agreements relating to the A-Plant and the K-Plant, the Parties stipulate to a Test Year depreciation expense of \$260,721, less Test Year CIAC amortization expense of \$81,489 and a Global Settlement adjustment of \$9,357, for a net Test Year depreciation expense of \$169,875.⁸⁵

Based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable the Parties' stipulated depreciation expense amount of \$169,875 at present and approved rates.

G.

Average Rate Base

The Parties stipulate to utilizing an average test year rate base balance.⁸⁶ WHSC's rate base balance consists of its net plant-in-service (i.e., the plant-in-service minus accumulated depreciation), minus net CIAC, accumulated deferred income taxes ("ADIT"), and the unamortized Hawaii State Capital Goods Excise Tax Credit ("HSCGETC"), plus working cash.⁸⁷

In determining the average balance, the Parties started with WHSC's recorded plant-in-service as of June 30, 2012.

⁸⁵Stipulation, at 30.

⁸⁶Application, Exhibit WHSC-T-100, at 14.

⁸⁷Application, Exhibit WHSC-T-100, at 14.

Then the Parties included the amounts that were added to or removed from WHSC's respective plant-in-service balances between July 1, 2012, and June 30, 2013. Finally, the Parties agreed on the amounts for WHSC's respective accumulated depreciation balances, utilizing the straight-line unit depreciation method.⁸⁸

In general, the deductions from rate base represent funds provided by sources other than investors (i.e., ratepayers), on which the utility is not entitled to earn a return, while additions to rate base represent funds supplied by WHSC's investors.

The Parties stipulate to the following average rate base balances for WHSC:

Description	Average Balance
Plant-in-service	\$11,068,814
Accumulated depreciation	<u>(\$2,644,157)</u>
Net plant-in-service	\$8,424,657
Net CIAC	(\$3,832,786)
ADIT - Federal	(\$310,727)
ADIT - State	(\$51,588)
Unamortized HSCGETC	<u>(\$387,454)</u>
Subtotal	(\$4,582,555)
Working capital	\$80,912
Total	\$3,923,013 ⁸⁹

⁸⁸Supplemental Stipulation, Exhibit A, Schedule 7 (Revised); and Exhibit A at 2, attached hereto.

⁸⁹Supplemental Stipulation, Exhibit A, Schedule 7 (Revised).

1.

Net Plant-in-Service

In general, WHSC's net plant-in-service (i.e., its plant-in-service less accumulated depreciation) balance represents the major component of WCSC's average Test Year rate base balance. The Parties' agreement on the net plant-in-service balance, in effect, reflects the net investment in property utilized by WHSC to provide wastewater services during the Test Year.

In its Application, WHSC proposed a Test Year plant-in-service balance as of June 30, 2012 of \$10,905,059 and a plant-in-service balance as of June 30, 2013 of \$14,722,705 for an average Test Year plant-in-service of \$12,813,882. WHSC submitted a list of plant additions made between 2005 and 2010, as well as descriptions of projects that were planned to be completed during the Test Year. The two major additions to plant-in-service since WHSC's last rate case were the A-Plant expansion and upgrade, and upgrade and replacement of the K-Plant. The Parties also agreed to include an allocated portion of the cost of a roll-off truck in plant-in-service.⁹⁰

The first major plant addition is the A-Plant. The A-Plant receives wastewater from the service area located in the southern end of Waikoloa Village. Commercial facilities served

⁹⁰Stipulation, at 31.

include Waikoloa Highlands Commercial Center, Waikoloa Village Association complex, Waikoloa Village Post Office, and the Waikoloa Fire Station. Multi-Family dwelling units served include Waikoloa Gardens, Paniolo Club, Fairway Terrace, 17th Fairway Villas, Waikoloa Villas, Waikoloa Fairways, Waikoloa Hills, Waikoloa Village Condos, Elima Lani, and the Greens at Waikoloa.⁹¹

WHSC has constructed a new moving bed biofilm reactor ("MBBR") wastewater treatment plant that replaced the previous Intermittent Cycle Extended Aeration System ("ICEAS") treatment facilities. The former plant had a treatment capacity of 300,000 gallons per day ("gpd"). This project was initiated by WHSC prior to WHSC's acquisition by HWSC.⁹²

The average daily wastewater flows to the A-Plant for the one year period from January 1, 2005, through December 31, 2005 was 215,000 gpd. The maximum day flow was 247,000 gpd or about 15% above the average daily flow. Further, in a 2005 engineering study, flows were projected to increase to 800,000 gpd by 2012. Therefore, additional treatment capacity was required for anticipated growth.⁹³ WHSC thereafter began its evaluation of alternatives for upgrading and expanding the A-Plant, and in early

⁹¹Stipulation, at 31.

⁹²Stipulation, at 31.

⁹³Stipulation, at 32.

2006, Water systems Integrators International, LLC ("WSI"), proposed an all-inclusive design-build contract (engineering, permitting, equipment, procurement, construction, start up and testing) of a new MBBR plant using its proprietary process.⁹⁴ WHSC and its parent, Waikoloa Land Company, accepted WSI's proposal for design-build of its MBBR plant.⁹⁵

The Consumer Advocate did not raise issues with the reasonableness of the WHSC selection of the MBBR process or its selection of WSI as a contractor.⁹⁶ The Consumer Advocate also did not raise any issues relating to the need to upgrade and expand the A-Plant or the costs of the A-Plant.

The Parties stipulated that the upgrade and expansion of the A-Plant was reasonable and necessary, and that: (1) the cost of Phases 1 and 2 of the A-Plant, in the amount of \$6,638,941, is reasonable; and (2) until such time as Phase 3 is placed into service, the incremental cost of Phase 3 equipment in the amount of \$283,968 will be excluded from plant-in-service.⁹⁷ The Parties further agreed that a 23.68% excluded capacity adjustment will be applied to the cost of the A-Plant, and that the excluded capacity

⁹⁴Stipulation, at 33.

⁹⁵Stipulation, at 34.

⁹⁶Stipulation, at 34.

⁹⁷Stipulation, at 36.

will not begin to be depreciated until such costs are included in rate base. This will allow WHSC to fully recover depreciation of the excluded capacity beginning on the date it is placed in service.⁹⁸

The second major plant addition since WHSC's last rate case is the K-Plant, which receives wastewater from a Hawaii County housing project and the Waikoloa Elementary school in Waikoloa Village. WHSC has constructed a new MBBR wastewater treatment plant that replaced the former K-Plant.⁹⁹

The Consumer Advocate did not raise any issues relating to the need for the new K-Plant or the originally estimated cost of the new K-Plant. The Parties therefore stipulated that the construction of the new K-Plant was reasonable and necessary. The Parties further stipulated that: (1) the originally estimated cost of Phase 1 of the K-Plant, in the amount of \$4,752,925, is reasonable for ratemaking purposes in this rate case, subject to the Parties' agreements regarding Excluded Capacity; and (2) in WHSC's next rate case, WHSC shall have the right to seek to include additional costs of Phase 1 in rate base, and the Consumer Advocate

⁹⁸Stipulation, at 39.

⁹⁹Stipulation, at 39.

shall have the right to review the reasonableness of any such additional costs.¹⁰⁰

The Parties further agreed to allocate 25% of the total cost of the new 400,000 gpd plant to the capacity that was being replaced - 67,000 gpd - and to include that amount in rate base. The current daily plant flows have exceeded the 67,000 gpd capacity of the old K-Plant on approximately half of the days since June 10, 2013, when the new plant was placed in service. As such, WHSC contended that the agreement to allocate 25% of the plant cost to existing ratepayers, and include that amount in rate base, continues to be reasonable. Based thereon, the Parties stipulated that the allocation of \$1,188,231 (25% of the original rate case estimate of Phase 1 only of \$4,752,925) of K-Plant Cost to existing ratepayers for the plant capacity that was replaced and upgraded, and inclusion of that amount in rate base, is reasonable.¹⁰¹

In Docket No. 2011-0331, WHUC's general rate case, the Consumer Advocate recommended that a portion of the cost of a roll-off truck included in WHUC's test year plant-in-service be allocated to WHSC, WHWC, and Kona Water Service Company Inc. The Parties stipulate that the total cost of the roll-off truck is \$203,982, and that the percentage of the cost to be allocated to

¹⁰⁰Stipulation, at 45.

¹⁰¹Stipulation, at 49-50.

WHSC is 27.45%. Therefore, the Parties stipulate that \$55,993 of the cost of the roll-off truck will be included in WHSC's Test Year plant-in-service.¹⁰²

Based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable the stipulated average plant-in-service balance of \$11,068,814, based on plant-in-service balances of \$9,177,472 as of June 30, 2012, and \$12,960,155 as of June 30, 2013.¹⁰³

2.

Accumulated Depreciation

As discussed in Section II.F.3 above, WHSC and the Consumer Advocate stipulated to the items to be included in plant-in-service and the depreciation method to be used (i.e., straight line unit depreciation) for this rate case. Accordingly, based on the commissions review of the entire record, including the Stipulations, the commission finds reasonable the stipulated Test Year average accumulated depreciation and amortization reserve of \$2,644,157.¹⁰⁴

¹⁰²Stipulation, at 50-51.

¹⁰³Stipulation, at 51; Supplemental Stipulation, Exhibit A, Schedule 7 (Revised); and Exhibit A at 2, attached hereto.

¹⁰⁴Stipulation, at 51; and Stipulation, Exhibit A, Schedule 7.

3.

Net CIAC

In general, CIAC refers to "money or property a developer or customer contributes to fund a utility capital project."¹⁰⁵

As previously discussed, on October 22, 2009, WHSC, the Consumer Advocate, and WHSC's affiliates, WHWC and WHUC, entered into the Global Agreement to resolve their differences with respect to the ratemaking treatment of CIAC. Specifically, these parties agreed to the ratemaking treatment of: (1) CIAC income tax gross-up balances; (2) CIACs received pursuant to a Memorandum of Understanding ("MOU") with the County of Hawaii ("COH"); (3) deferred CIACs; and (4) the proposed transfer of "Excess" CIAC.

a.

Deferred CIAC

Regarding deferred CIAC, the applicable terms of the Global Settlement provide:

Deferred CIAC and Imputed Interest on Such Amounts. In Docket No. 96-0366, [WHUC's 1997 test year rate case,] an issue arose regarding the ratemaking treatment of CIAC funds received by WHUC for real estate development projects that were pending or under construction and not yet receiving

¹⁰⁵Docket No. 2011-0148, Proposed Decision and Order No. 31760, at 45.

utility service. As a result of a Stipulation of Settlement reached between WHUC and the Consumer Advocate in said docket, WHUC and the Consumer Advocate agreed to not include the subject CIAC in the test year rate base (i.e., recognized for ratemaking purposes). Instead, the amounts collected for these pending or under construction real estate development projects would be recorded as deferred CIAC until such time that the real estate projects were completed and commenced receiving utility service from WHUC. At that time, the CIAC received for the real estate development project would be transferred from deferred CIAC to CIAC and recognized in the rate setting process.

In addition, because WHUC would not be recognizing the CIAC funds received for ratemaking purposes, WHUC and the Consumer Advocate agreed that WHUC would accrue interest on the amounts received, net of tax, until the real estate development projects commenced receiving utility service from WHUC. The rate of interest applied by WHUC has been First Hawaiian Bank's prime rate plus 1.25%.

Although the above agreement applied only to WHUC, the accounting of CIAC for pending real estate development projects was also followed by WHSC and WHWC. Due to the unique accounting of the CIAC received by Utilities for pending or under construction real estate development projects, all Utilities have significant amounts of deferred CIAC and accrued CIAC on their books. Furthermore, many of these real estate development projects for which CIAC funds were received are presently dead, dormant, or pending with no certainty as to whether the dormant or pending projects will materialize.¹⁰⁶

¹⁰⁶Application, Exhibit WHSC-T-301 (Global Settlement), at 3 and 12.

According to the Global Settlement, the Utilities, in their future general rate cases, will request approval by the commission to apply the deferred CIAC amounts currently recorded on their books to the cost of utility plant, as described in further detail therein. Further, imputed interest on deferred CIAC, where applicable, would continue to be applied.¹⁰⁷ In its Application, WHSC imputed interest on the deferred CIAC received for the Waikoloa Heights project, but not on its other deferred CIAC. WHSC explained that in Docket No. 2000-0040, the commission ordered that the balance of deferred CIAC for Waikoloa Heights, in the amount of \$443,270, would be reclassified as a deferred credit and would accrue interest.¹⁰⁸ WHSC accrued interest on the Waikoloa Heights deferred CIAC from February, 2002 until December 31, 2010. The total imputed interest is \$710,256, and according to WHSC, it did not impute interest on other deferred CIAC because the decision in Docket No. 2000-0040 did not address the imputation generally.¹⁰⁹

Based on the commission's review of the entire record, including the Stipulations and the foregoing, the commission finds

¹⁰⁷Application, Exhibit WHSC-T-301 at 4.

¹⁰⁸In re Waikoloa Sanitary Sewer Company, Inc. dba West Hawaii Sewer Company, Decision and Order No. 19223, filed on February 27, 2002, in Docket No. 2000-0040 at 22.

¹⁰⁹Stipulation, at 57-58.

reasonable, the Parties' stipulation to include accrued interest on WHSC's deferred CIAC in the amount of \$710,256.

b.

Excess CIAC

WHWC had \$2,875,451 in deferred CIAC credits, and anticipated receiving approximately \$3,950,000 in additional CIAC from developers of proposed projects.¹¹⁰ According to the Global Settlement, WHWC proposed to apply its deferred CIAC and additional CIAC to WHWC's share of the cost of the Pending Water Improvements, which was estimated to be \$5,149,695.¹¹¹ This resulted in WHWC having a remaining CIAC balance of approximately \$1,684,257. The Parties agreed to seek commission approval to transfer this Excess CIAC to the net cost of WHSC's wastewater K-Plant.¹¹² By Order No. 32685, the commission allowed the transfer of Excess CIAC, finding that it was reasonable and in the public interest.¹¹³

¹¹⁰Global Settlement, at 5.

¹¹¹In re Waikoloa Water Co., Inc. dba West Hawaii Water Company, Decision and Order No. 32685 ("Order No. 32685"), filed on February 19, 2015, in Docket No. 2012-0148 at 53.

¹¹²Order No. 32685, at 53.

¹¹³Order No. 32685, at 56.

Accumulated Deferred Income Taxes

As previously explained by the commission:

ADIT represents the difference between the amount of income tax expense reported for book (i.e., ratemaking) and for tax purposes. In general, a regulated entity calculates and reports book depreciation expenses on a straight-line basis (i.e., straight-line depreciation), but for tax purposes, the regulated entity may write-off the same asset on an accelerated basis, i.e., accelerated depreciation. The difference in tax liabilities calculated for book and tax purposes, respectively, generates deferred income taxes. Thus, the regulated entity must pass onto its ratepayers the tax benefits received as a result of the accelerated tax depreciation practices. For ratemaking purposes, the ADIT is reflected as a reduction to rate base.¹¹⁴

The Parties stipulated to, and consistent with the findings in this Order, the commission finds reasonable an average ADIT balance of \$310,727 for federal taxes and \$51,588 for state taxes.¹¹⁵

¹¹⁴Docket No. 2006-0409, Decision and Order No. 24085, Section II.E.2, Accumulated Deferred Income Taxes, at 38 (citing to In re Young Bros., Ltd., Docket No. 2006-0396 ("Docket No. 2006-0396"), Decision and Order No. 23714, filed on October 12, 2007, at 50).

¹¹⁵Stipulation, at 51; Stipulation, at Exhibit A, Schedule 7.

5.

Unamortized Hawaii State Capital Goods Excise Tax Credit

As previously explained by the commission:

The HSCGETC is the tax credit authorized for purchases related to the acquisition or construction of capital goods in the State. "Similar to ADIT, the tax benefits associated with HSCGETC must be returned to a regulated utility company's customers. Thus, similar to ADIT, the accumulated balance of HSCGETC is reflected as an offset to rate base."¹¹⁶

The Parties stipulated to, and the commission finds reasonable, an average Test Year HSCGETC of \$387,454.¹¹⁷

6.

Working Cash

Working cash represents "the amount of money provided by investors, over and above the investment in plant and other specifically identified rate base items, in order for WHUC to meet current obligations incurred in providing service pending receipt

¹¹⁶Docket No. 2006-0409, Decision and Order No. 24085, Section II.E.3, Hawaii State Capital Goods Excise Tax Credit, at 39 (citing to Docket No. 2006-0396, Decision and Order No. 23714, filed on October 12, 2007, at 52).

¹¹⁷Stipulation, at 52; and Stipulation, at Exhibit A, Schedule 7.

of revenues from those services. WHUC is entitled to receive a return on such advances."¹¹⁸

Expenses were analyzed and forecasted for the test year by applying the simplified 1/12th method. State regulatory commissions have accepted this method for determining working cash for smaller utilities.¹¹⁹ This method uses one-twelfth of the annual operating expenses as a proxy for determining the amount of cash that is dedicated to utility service, and the result is an addition to rate base.¹²⁰

The Parties initially stipulated to a Test Year working capital amount of \$80,457.¹²¹ However, after the Parties' removal of the cost of service study from test year expenses, and after adjustments to general and administrative expense and labor expense, total operating expense is \$970,945. Consistent with the 1/12th methodology, the commission finds reasonable a working capital amount of \$80,912 ($970,945 \div 12 = 80,912$).¹²²

¹¹⁸Docket No. 2006-0409, Decision and Order No. 24085, at 40 (citing to Docket No. 96-0366, Decision and Order No. 16372, at 12).

¹¹⁹Application, Exhibit WHSC-T-100, at 16.

¹²⁰Application, Exhibit WHSC-T-100, at 16.

¹²¹Stipulation, at 52.

¹²²Supplemental Stipulation at 3; Supplemental Stipulation, Exhibit A, Schedule 7 (Revised); and Exhibit A at 2, attached hereto.

7.

Average Rate Base Balance

The Parties stipulated to an average Test Year rate base of \$3,923,558.¹²³ However, as a result of the Parties' subsequent adjustment to working cash, the Parties stipulate, and based on the commission's review of the entire record, including the Stipulations, the commission finds reasonable, an average Test Year base of \$3,923,013.¹²⁴

H.

Rate of Return

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

("In re HELCO"):

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

¹²³Stipulation, Exhibit A, Schedule 7.

¹²⁴Supplemental Stipulation, Exhibit A, Schedule 7 (Revised).

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

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

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

.....

Questions concerning a fair rate of return are particularly vexing as the reasonableness of rates is not determined by a fixed formula but is a fact question requiring the exercise of sound discretion by the Commission. It is often recognized that the ratemaking function involves the making of "pragmatic" adjustments and there is no single correct rate of return but that there is a "zone of reasonableness" within which the commission may exercise its judgment.¹²⁵

¹²⁵In re HELCO, 60 Haw. at 632-633 and 636, 594 P.2d at 618-20 (citations omitted) (emphasis added).

The Parties agree that a rate of return of 7.75% is fair, based on the following capital structure and cost rates:

<u>Capital Component</u>	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long-term debt	\$1,961,779	50%	5.60%	2.80%
Common equity	\$1,961,779	50%	9.89%	4.95%
	\$3,923,558	100%		7.75% ¹²⁶

The Parties stipulate to a balanced capital structure of 50% debt and 50% equity, based on: (1) WHSC's intent to establish a balanced capital for its consolidated Hawaii operations; and (2) WHSC's rationale that "[a] balanced equity structure minimizes the financial risk that debt poses on the return on equity."¹²⁷

WHSC's cost of long-term debt of 5.6% represents the most recent guaranteed offering from WHSC's parent entity, California Water Service Group.¹²⁸ Meanwhile, WHSC's return on common equity of 9.89% represents an amount that is approximately midway between the 10.5% return initially proposed by WHSC

¹²⁶Stipulation, Exhibit A, Schedule 9.

¹²⁷Stipulation, at 63 (citing to Application, Exhibit WHSC-T-100 at 9).

¹²⁸Stipulation, at 63 (citing to Application, Exhibit WHSC-T-100, at 9).

in its Application and the 9.5% return recommended by the Consumer Advocate in its direct testimony.¹²⁹

Here, the stipulated rate of return of 7.75%: (1) is equal to the rate of return authorized in WHUC's (WHSC's affiliate) most recent rate case (Docket No. 2011-0331);¹³⁰ and (2) is also 0.25% (i.e., 25 basis points) lower than the 8% rate of return recently approved by the commission in the 2011-2012 split test year rate case for HWSC's Pukalani Division (Docket No. 2011-0148).¹³¹ Taking all into consideration (including the decision in the WHUC's most recent rate case) and based on its review of the entire record, including the Stipulations, the commission finds that the stipulated rate of return is within the range of reasonableness described by the Hawaii Supreme Court in In re HELCO.¹³²

The commission, thus, approves as fair the Parties' stipulated rate of return of 7.75%.

¹²⁹Stipulation, at 63-64 (citing to Application, Exhibit WHSC-T-100, at 10, and CA-T-1, at 52.

¹³⁰Docket No. 2011-0331, Decision and Order No. 32107, Section II.H, Rate of Return, at 111.

¹³¹Docket No. 2011-0148, Proposed Decision and Order No. 31760, Section II.E, Rate of Return, at 52-55; and Decision and Order No. 31810, filed on January 14, 2014.

¹³²See Docket No. 2011-0331, Decision and Order No. 32107, Section II.H, Rate of Return, at 111-112.

I.

Test Year Revenue Requirement

Based on the commission's conclusions with respect to WHSC's Test Year revenues and expenses at present rates, average rate base balance, and rate of return, the commission ultimately approves as reasonable an increase in revenues of \$673,996, or approximately 68.4% over revenues at present rates for WHSC, based on a Test Year revenue requirement of \$1,658,850. The commission's calculations of WHSC's Test Year revenue requirement are set forth in the schedules attached to this Order.

In sum:

<u>Operations</u>	<u>Present Rates</u>	<u>Additional Amount</u>	<u>Approved Rates</u>	<u>Percentage Change</u>
Wastewater	\$984,855	\$673,996	\$1,658,850	68.4%

J.

Rate Design

The Parties agreed to: (1) adopt a Power Cost Charge ("PCC"), rather than the Power Cost Adjustment Factor ("PCAF") proposed in the Application; and (2) increase WHSC's base wastewater rates and charges.

1.

Power Cost Charges

In the Application, WHSC proposed to adopt the following power cost adjustment factor ("PCAF"):

The percentage change (increase or decrease) that will be applied to a customer's monthly quantity charge shall be calculated as follows: ((Previous Month Electricity Cost/Previous Month total metered TG) - \$1.1180.) x 1.068385.¹³³

However, comments made at the public hearing, as well as in a number of letters to the commission in WHWC's rate case, Docket No. 2012-0148, indicate that the adjustment of WHWC's Power Cost Adjustment Charges ("PCAC") and the effect of that adjustment on the amount of the rate increase, results in a great deal of confusion. In addition, some customers expressed a desire to have the power cost charge shown as a completely separate charge on the utility bill. WHWC therefore proposed to replace the PCAC with a PCC, which includes all of WHWC's electricity costs, and which

¹³³Stipulation at 70, which notes that the \$1.1180 was based on the Test Year total electricity expense of \$240,140/Test Year Water Sales to A Plant customers of 170,570 TG. The PCAF would only include the electricity charges for the A-Plant. The K- Plant is currently powered by diesel generator, and diesel fuel costs would not be included in the PCAF; Application at Exhibit WHSC 8.6. (The commission observes that while the calculation of the PCAF contained in Exhibit WHSC 8.6 correctly referred to the previous month's electricity cost and metered TG, the proposed tariff language in Exhibit WHSC 5 mistakenly referred to the current month electricity cost of metered TG).

will be shown as a separate line item on the customer's bill. Thus, all of WHWC's electrical costs would be removed from operating costs for purposes of determining the monthly standby charge and water consumption charges.¹³⁴

Consistent with the agreement by WHWC and the Consumer Advocate to replace WHWC's PCAC with a PCC in Docket No. 2012-0148, WHSC during settlement discussions in the instant docket proposed to adopt a PCC rather than the PCAF originally proposed in WHSC's Application. The calculation of the PCC would be as follows:

Electric Power Cost Per Thousand Gallons =
Previous Month's Electricity Cost
Divided by Previous Month's Total Metered
TG of Water to the Company's Customers
Times 1.06385 (Public Service Company Tax
and PUC Fee).¹³⁵

The Consumer Advocate did not object to WHSC's proposal to establish a PCC. However, the Consumer Advocate recommended that the formula be revised to include an efficiency factor similar to that used in WHWC's PCAC. WHSC, however, explained that the methodology which is being proposed for establishing an efficiency factor for water flows for WHWC is not applicable to sewer flows at WHSC since wastewater influent flow is only one

¹³⁴Stipulation, at 71; and Decision and Order No. 32685, filed on February 19, 2015, in Docket No. 2012-0148 at 65.

¹³⁵Stipulation, at 71.

factor in determining power consumption.¹³⁶ To address the Consumer Advocate's concerns, WHSC agreed to conduct an energy audit of its wastewater facilities, and to report energy use and efficiency to the Consumer Advocate and the commission.¹³⁷

As such, the Parties agreed not to include an efficiency factor in the PCC, on the condition that: (1) WHSC will conduct an energy audit of its wastewater facilities within twelve (12) months of the commission's Order in the instant proceeding; (2) within three (3) months of the completion of the energy audit, WHSC will provide to the commission and the Consumer Advocate the audit's results along with WHSC's plan to implement the recommendations resulting from the energy audit; and (3) WHSC will submit a quarterly report of its energy use and efficiency to the Consumer Advocate and the commission.¹³⁸

¹³⁶Stipulation, at 72.

¹³⁷Stipulation, at 72.

¹³⁸Stipulation at 72. In accordance with the WHWC Stipulation, WHWC sent a bill insert to its customers explaining the proposal to change from the PCAC to a PCC, and allowing customers to comment on the proposal. All WHSC customers are also WHWC customers. WHWC only received five comments in response to the mailing, none of which objected to the proposal. Based upon the bill insert regarding the PCC provided to WHWC's customers and the customers' response, the Consumer Advocate does not request that WHSC send a similar bill insert in this docket.

The Consumer Advocate agreed to support the proposed PCC, subject to the condition that WHSC will file monthly reports with the commission and the Consumer Advocate showing the calculation of the PCC that will be billed to customers in the following month, and the foregoing conditions relating to energy efficiency.¹³⁹

The change to the proposed PCC will require a tariff revision (added to Sheet 30 of WHSC's Tariff), as follows:

POWER COST CHARGE:

In addition to the Monthly Stand-by charge and the Monthly Water Consumption Charge, there shall be a Power Cost Charge per 1,000 gallons of metered water provided by West Hawaii Water Company per month. The amount of the Power Cost Charge shall be computed as follows:

Electric Power Cost Per Thousand Gallons
("TG")=
Previous Month's Electricity cost
Divided by Previous Month's Total Metered TG
of Water to the Company's customers
Times 1.06385 (Public Service Company Tax and
PUC Fee)¹⁴⁰

¹³⁹Stipulation, at 72-73.

¹⁴⁰Stipulation, at 73; and Stipulation, Exhibit B, Schedule 13C.

WHSC's Base Rates and Charges

To reiterate, the Parties stipulate to a total increase in revenues at present rates of \$673,996 for WHSC's utility operations. The Parties further stipulate to implementing the commission-approved increase in revenues as across-the-board increases to WHSC's base rates and charges. In addition, WHSC agrees with the Consumer Advocate's recommendation to undertake and complete a cost-of-service study prior to filing of its next rate case application.

For WHSC's wastewater operations, the Parties stipulate to a 68.4% increase, implemented in two phases, twelve months apart, as follows:

Monthly Sewer Fixed Service Charge

<u>Classification</u>	<u>Present Rate</u>	<u>Stipulated Phase 1 Rate (Percent Increase Over Current Rates)</u>	<u>Stipulated Phase 2 Rate (Percent Increase over Phase 1)</u>
Residential - Condo/Hotel (per living unit)	\$36.67	\$49.36 (34.6%)	\$62.04 (25.7%)
Commercial (per equivalent Residential unit)	\$36.67	\$49.36 (34.6%)	\$62.04 (25.7%)

Monthly Quantity Charge

	<u>Present Charge</u>	<u>Stipulated Phase 1 Charge</u>	<u>Stipulated Phase 2 Charge</u>
Sewer Quantity Per TG of metered water	\$1.33	\$1.05 (-20.8%)	\$1.51 (47.6%)
Power Cost Per TG of metered water	\$0	\$0.74	\$0.74
Sewer Quantity Plus Power Cost Per TG of metered water	\$1.33	\$1.79 (34.6%)	\$2.25 (25.7%)

Note: The Parties' stipulated rate design is based on the assumption that the commission approves the proposed Power Cost Charge, which will remove the electricity costs from the water quantity charge and re-state the Power Cost Charge as a separate line item.¹⁴¹

Based on its review of the entire record, as well as the Stipulations, the commission finds reasonable the Parties' agreement to phase in the rate increase authorized by this Order. The commission instructs WHSC to file its revised tariff sheets for the commission's review and approval, consistent with the applicable terms of this Order.

¹⁴¹Stipulation, at 74, n. 28.

K.

Other Tariff Provisions

The Parties stipulate to certain revisions to WHSC's existing tariff rules. While ambiguous from the text of the Settlement Agreement, it is apparent that the Parties stipulate to revising: (1) Rule XI, Contribution in Aid of Construction; and (2) Rule XII, System Extensions.

1.

Rule XI, Contribution in Aid of Construction Fee
(Facilities Charge)

The Parties' stipulated revisions to WHSC's Tariff Rule XI are set forth in Exhibit B, Schedule 12, of the Stipulation. The Parties stipulate to several sets of revisions:

First, the Parties stipulate to revising the current procedures pursuant to which WHSC will agree to provide service for new facilities via an applicant's request to issue a will-serve letter, followed by WHSC's issuance of a will-serve letter thereto. The new procedures include the execution of an Extension Agreement by WHSC and the applicant. The current procedures, by contrast, do not include extension agreements. Both procedures include the payment of the CIAC fee by the applicant.¹⁴²

¹⁴²Stipulation, at 65-66.

Second, the Parties stipulate to adding provisions which automatically terminate the will-serve letter or Extension Agreement if, after the expiration of a stated time period, the conditions set forth therein have not been satisfied or if the construction of the CIAC-funded project has not been completed.¹⁴³

Moreover, in the event of such termination:

A. WHSC's commitment to reserve capacity for the applicant shall be null and void.

B. If the applicant subsequently requests service for the same property, the CIAC fee "will be recalculated based on the cost of facilities required to serve [the] applicant, and [the] applicant will receive a credit in the amount of the unreimbursed balance of the [CIAC] previously paid."¹⁴⁴

C. WHSC "will reimburse the applicant for all or a part of the [CIAC] paid by the applicant if (i) such funds have not yet been used or committed and are not required to complete construction of the facilities for which they were collected; or (ii) to the extent that [WHSC] has received [CIAC] from another applicant who will utilize all or a part of the capacity originally reserved for the applicant."¹⁴⁵

The foregoing second and third sets of stipulated revisions are "intended to allow WHSC to make unused capacity

¹⁴³Stipulation, at 65-66.

¹⁴⁴Application, Exhibit WHSC 12 at Original Sheet 22B, para. 11.

¹⁴⁵Stipulation, at 67.

available to other users, and assure that the developer pays for the actual cost of facilities required to serve the development."¹⁴⁶

Third, the Parties stipulate to adding "grandfather" provisions which provide that: (1) the new termination provisions described above shall not apply to will-serve agreements signed prior to the effective date of the new rule; and (2) the new CIAC rate does not apply to any applicant who has entered a will-serve agreement before the effective date of the new rule, except to the extent that the will-serve agreement is consistent with the revised CIAC provisions; and (3) new CIAC tariff rates do not apply to residential units that are subject to the memorandum of understanding with the County of Hawaii.¹⁴⁷

Fourth, WHSC's tariff presently includes a CIAC fee of \$7.25 per gallon of estimated daily water usage. In the Application, WHSC proposed to replace the fixed CIAC rate with a formula that is intended to recover the applicant's proportionate share of the cost of the facilities used to provide the service.¹⁴⁸ With the Consumer Advocate's input, WHSC agreed to calculate the CIAC fee separately for the A-Plant and for the K-Plant.

¹⁴⁶Stipulation, at 66 (citing Exhibit WHSC-T-300 at 31).

¹⁴⁷Stipulation, at 67; and Application, Exhibit WHSC 12 at Third Revised Sheet 23, para. 13.

¹⁴⁸Stipulation, at 68.

The formula proposed in the Application calculates the CIAC fee based upon either the estimated cost to construct the next capacity addition (if there is no available capacity) or the latest capacity addition (if there is available capacity). In the case of both the A-Plant and the K-Plant, the costs of different phases of capacity vary greatly. To correct the disparity, WHSC proposed to revise the formula to provide that the CIAC will be based on a plant cost that is not less than the average of the most recent two phases of plant capacity.¹⁴⁹ The Consumer Advocate agreed to the proposed changes, subject to the following conditions:

1. WHSC will track any over-collection of CIAC, and will apply any such over-collection as CIAC in WHSC's next rate case.

2. WHSC will track the net unamortized over-collected CIAC (if any) and, when the next phase of the plant is necessary (e.g., Phase 4 of the A Plant), the cost of the next phase will be reduced by the net unamortized over-collection in calculating

¹⁴⁹Stipulation, at 68-69; and Stipulation, Exhibit B, Schedule 12A.

the CIAC to be paid by a developer to be served by the next phase.

3. WHSC will include language in its tariff to reflect the credit described in item 2 above.¹⁵⁰

Based on its review of the entire record, including the Stipulations, the commission approves as just and reasonable the Parties' stipulated revisions to WHSC's Tariff Rule XI.

2.

Rule XII, System Extensions

The Parties stipulate to revising WHSC's Tariff Rule XII by expanding the existing "pioneer" provisions to allow "a developer to construct or pay for facilities other than line extensions, subject to refund from other developers who utilize any excess capacity in such improvements."¹⁵¹ The stipulated revision is intended to provide WHSC with the flexibility to "require a developer to pay for facilities required to service the development through a combination of CIAC charges and/or contributions of construction facilities."¹⁵²

¹⁵⁰Stipulation, at 69-70; and Stipulation, Exhibit B, Schedule 12, Rule XI, Section 7.c.

¹⁵¹Stipulation, at 65.

¹⁵²Stipulation, at 65.

Based on its review of the entire record, including the Stipulations, the commission approves as just and reasonable the Parties' stipulated revisions to WHSC's Tariff Rule XII.

IV.

Summary of Findings and Conclusions

1. WHSC's Test Year operating revenues, expenses, and average rate base balance, as set forth in the schedule attached to this Order as Exhibit A, are reasonable.

2. The stipulated rate of return of 7.75% is fair.

3. WHSC is entitled to an increase in revenues of \$673,996, or approximately 68.4%, over revenues at present rates, based on a total Test Year revenue requirement of \$1,658,850.

4. The adoption of a Power Cost Charge is just and reasonable, and is therefore approved.

5. The Parties' agreed-upon revisions to Tariff Rules XI and XII are just and reasonable, are therefore approved.

V.

Orders

THE COMMISSION ORDERS:

1. The Parties' Stipulation, filed on November 15, 2013, is approved, to the extent it is consistent with the terms of this Decision and Order.

2. The Parties' Supplemental Stipulation, filed on April 28, 2015, is approved, to the extent it is consistent with the terms of this Decision and Order.

3. WHSC may increase its utility rates and charges to produce an increase in revenues of \$673,996, or approximately 68.4% over revenues at present rates, based on a total Test Year revenue requirement of \$1,658,850.

4. Within fifteen (15) days of the date of this Order, WHSC shall file its revised tariff sheets for the commission's review and approval, consistent with the applicable terms of this Order, with copies served on the Consumer Advocate. WHSC shall file its revised tariff sheets in black-lined and clean formats.

5. WHSC's revised tariff sheets shall not take effect until affirmatively approved by the commission.

6. Within twelve (12) months of this Order, WHSC shall conduct an energy audit of its wastewater facilities; within three (3) months of the completion of the energy audit, WHSC shall provide the commission and the Consumer Advocate with the results of that audit along with WHSC's plan to implement the recommendations resulting from the energy audit; and WHSC shall submit a quarterly report of its energy use and efficiency to the commission and the Consumer Advocate.

7. WHSC shall file a monthly power cost charge report with the commission, which outlines the calculations of the

respective power cost charges that will be billed to its customers in the following month. WHSC's monthly report shall be due by the 15th of the month during which the respective power cost charges are in effect.

8. Prior to its next rate case proceeding, WHSC shall complete a cost-of-service study, which shall be incorporated as part of its next rate case application.

9. WHSC shall serve copies of the filings referenced in Ordering Paragraphs Nos. 4 to No. 6, above, upon the Consumer Advocate.

10. WHSC shall post its monthly power cost charge reports on-line at www.hawaiwaterservice.com, HWSC's website.

11. The failure to comply with any of the requirements set forth in Ordering Paragraphs Nos. 3 to No. 8, above, may constitute cause to void this Decision and Order, and may result in further regulatory action as authorized by State law.

DONE at Honolulu, Hawaii JUN 22 2015

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By (EXCUSED)
Randall Y. Iwase, Chair

By Michael E. Champley
Michael E. Champley, Commissioner

By Lorraine H. Akiba
Lorraine H. Akiba, Commissioner

APPROVED AS TO FORM:

Melissa M. Mash
Melissa M. Mash
Commission Counsel

2012-0147.sr

Docket No. 2012-0147
 Walkoloa Sanitary Sewer Co., Inc., dba West Hawaii Sewer Company
 Results of Operation Schedule less COS
 Test Year Ending June 30, 2013

	<u>Present Rates</u>	<u>Additional Amount</u>	<u>Approved Rates</u>	
Wastewater Operating Revenues	984,855	673,996	1,658,850	
Total Operating Revenues	984,855	673,996	1,658,850	68.44%
Labor Expenses	541,728		541,728	
Fuel & Power	219,753		219,753	
Water Consumption	-		-	
Chemicals	14,763		14,763	
Materials & Supplies	27,670		27,670	
Waste/Sludge Disposal	8,831		8,831	
Affiliated Charges	20,322		20,322	
Professional and Outside Services	15,144		15,144	
Repairs & Maintenance	1,826		1,826	
Rental Expenses	14,217		14,217	
Insurance Expenses	6,120		6,120	
Regulatory Expenses	23,576		23,576	
General & Administrative Expenses	37,368		37,368	
Miscellaneous & Other Expenses	39,627		39,627	
Total O&M Expenses	970,945	-	970,945	
Taxes Other Than Income	62,883	43,035	105,918	
Depreciation	169,875	-	169,875	
Amortization	-	-	-	
Income Taxes	(128,136)	240,732	112,596	
Diff due to changing factors		(4,517)	(4,517)	
Total Operating Expenses	1,075,568	279,250	1,354,817	
Operating Income	(90,713)	394,746	304,033	
Average Rate Base	3,923,013		3,923,013	
Return on Rate Base	-2.31%		7.75%	

Docket No. 2012-0147
Waikoloa Sanitary Sewer Co., Inc., dba West Hawaii Sewer Company
Average Rate Base
Test Year Ending June 30, 2013

	At <u>June 30, 2012</u>	At <u>June 30, 2013</u>	<u>Average</u>
Plant-in-Service	9,177,472	12,960,155	11,068,814
Accumulated Depreciation Reserve	<u>(2,696,444)</u>	<u>(2,591,870)</u>	<u>(2,644,157)</u>
Net Plant-in-Service	6,481,027	10,368,284	8,424,657
Deduct:			
Net Contributions in Aid of Construction	(2,264,601)	(5,400,971)	(3,832,786)
Customer Advances	-	-	-
Customer Deposits	-	-	-
Accumulated Deferred Taxes: Federal	(241,324)	(380,129)	(310,727)
Accumulated Deferred Taxes: State	(41,055)	(62,121)	(51,588)
Unamortized Hawaii General Excise Tax Credit	<u>(395,644)</u>	<u>(379,264)</u>	<u>(387,454)</u>
Subtotal	(2,942,624)	(6,222,486)	(4,582,555)
Add:			
Working Capital	80,912	80,912	80,912
Retirements	-	-	-
Subtotal	<u>80,912</u>	<u>80,912</u>	
Subtotal	3,619,315	4,226,711	
Rate Base at Approved Rates			<u><u>3,923,013</u></u>

Docket No. 2012-0147
Waikoloa Sanitary Sewer Co., Inc., dba West Hawaii Sewer Company
Taxes Other Than Income Taxes
Test Year Ending June 30, 2013

<u>Revenue Taxes</u>	<u>Tax Rates</u>	<u>Taxes at Present Rates</u>	<u>Taxes at Approved Rates</u>
Public Company Service Tax	5.885%	57,959	97,623
Public Utility Fee	0.500%	4,924	8,294
Franchise Tax	2.500%		
Total Revenue Taxes		62,883	105,918
<u>Other Taxes</u>		0	0
Total Other Taxes		0	0
Total Taxes Other Than Income Taxes		62,883	105,918

Docket No. 2012-0147

Waikoloa Sanitary Sewer Co., Inc., dba West Hawaii Sewer Company

Income Tax

Test Year Ending June 30, 2013

	At <u>Present Rates</u>	At <u>Approved Rates</u>
Total Revenues	984,855	1,658,850
Total O&M Expenses	970,945	970,945
Depreciation	169,875	169,875
Amortization	-	-
Taxes Other Than Income Taxes	<u>62,883</u>	<u>105,918</u>
Total Operating Expenses	1,203,703	1,246,738
Operating Income before Income Taxes	(218,846)	412,112
Interest Expense	<u>109,844</u>	<u>109,844</u>
State Taxable Income	(328,693)	302,268
State Income Tax		
less than \$25K	Tax Rates 4.2000% Less: 1,100	
Over \$25K, but less than \$100K	5.4000% 4,050	
Over \$100K	6.4000% 5,150	
Total State Income Tax		<u>18,182</u>
Federal Taxable Income	(328,693)	284,086
Federal Taxable Income		
less than \$50K	15.0%	
Over \$50K, but less than \$75K	25.0%	
Over \$75K, but less than \$100K	34.0%	
Over \$100K, but less than \$335K	39.0%	110,794
Over \$335K	34.0%	(111,756)
Less HCGET Credit amortization	(16,380)	(16,380)
Total Federal and State Income Taxes	<u>(128,136)</u>	<u>112,596</u>
Effective Tax Rate	38.9830%	37.2504%
State	0.0000%	6.0151%
Federal	38.9830%	31.2353%

Docket No. 2012-0147
Waikoloa Sanitary Sewer Co., Inc., dba West Hawaii Sewer Company
Working Capital
Test Year Ending June 30, 2013

Labor Expenses	541,728
Fuel & Power	219,753
Water Consumption	-
Chemicals	14,763
Materials & Supplies	27,670
Waste/Sludge Disposal	8,831
Affiliated Charges	20,322
Professional and Outside Services	15,144
Repairs & Maintenance	1,826
Rental Expenses	14,217
Insurance Expenses	6,120
Regulatory Expense	23,576
General & Administrative Expenses	37,368
Miscellaneous & Other Expenses	39,627
Taxes, Other Than Income	<u>0</u>
Subtotal	970,945
Working Capital factor	<u>12</u>
Working Capital	<u><u>80,912</u></u>

CERTIFICATE OF SERVICE

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

JEFFREY T. ONO
EXECUTIVE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
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