DAVID Y. IGE
GOVERNOR

SHAN S. TSUTSUI
LT. GOVERNOR

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STATE OF HAWAII
PUBLIC UTILITIES COMMISSION
465 S. KING STREET, #103
HONOLULU, HAWAII 96813

RANDALL Y. IWASE
CHAIR
LORRAINE H. AKIBA
COMMISSIONER
JAMES P. GRIFFIN
COMMISSIONER

website: puc.hawaii.gov
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'17 OCT 17 P2:50

DEPT. COMM. NO. 15

October 16, 2017

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

The Honorable Scott K. Saiki
Speaker of the House
State Capitol, Room 431
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Public Utilities Commission Docket No. 2015-0236 – Application of Hawaii Water Service Company, Inc. for a General Rate Increase for its Pukalani Wastewater Division ("HWSC – Pukalani Division") and for Approval of Revisions to its Tariff.

Dear President Kouchi and Speaker Saiki:

The Public Utilities Commission ("Commission") issued a Proposed Decision and Order in this docket on September 15, 2017. In connection thereto, the Commission respectfully submits this report in accordance with Hawaii Revised Statutes ("HRS") § 269-16.

For public utilities, like HWSC – Pukalani Division, that have annual gross revenues of less than $2,000,000, HRS § 269-16(f)(3) states that the Commission shall:

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

For your information, the commission encloses a copy of Proposed Decision and Order No. 34822, filed on September 15, 2017.[1] The Commission plans to issue its Final Decision and Order in this docket shortly.

[1]Proposed Decision and Order No. 34822 was amended by Order No. 34825 (attached), filed on September 18, 2017, to include inadvertently omitted results of operations schedules.

Based on the December 16, 2016 filing date of HWSC – Pukalani Division's completed application for a general rate increase and revisions to its tariff, HRS § 269-16(f) contemplates a six-month deadline for the Commission's proposed decision and order in this docket (i.e., a deadline of June 16, 2017). However, the Commission issued its decision beyond the deadline contemplated in HRS § 269-16(f)(3) pursuant to a request by HWSC – Pukalani Division, in its "Motion to Waive the Provisions of H.R.S. 269-16(f)," filed on October 2, 2015.

HWSC – Pukalani Division requested that the commission "waive the six-month procedural schedule contemplated under HRS § 269-16(f) and instead allow HWSC's general rate case application . . . to proceed under the nine-month procedural schedule contemplated under HRS § 269-16(d[,]" based on HWSC – Pukalani Division's concerns regarding its ability to meet the six-month procedural schedule contemplated under HRS § 269-16(f).

The Department of Commerce and Consumer Affairs, Division of Consumer Advocacy ("Consumer Advocate"), which is an ex officio party to this docket pursuant to HRS § 269-51 and Hawaii Administrative Rules § 6-61-62(a), filed a statement of no position on HWSC – Pukalani Division's Motion to Waive, on October 9, 2015.

HWSC – Pukalani Division filed its completed rate case application, as amended, on December 16, 2016. On January 5, 2017, the Commission issued Order No. 34284, "Partially Granting Hawaii Water Service Company, Inc.'s Motion to Waive the Provisions of Hawaii Revised Statutes HRS § 269-16(f)," which granted HWSC – Pukalani Division's request to utilize a nine-month, rather than a six-month, procedural schedule in this docket.

Pursuant to the approved nine-month procedural schedule, the commission timely issued Proposed Decision and Order No. 34822 on September 15, 2017 (see attached).

Thank you for the opportunity to submit this report. Should you have any questions regarding this matter, please contact me at 586-2020, or Caroline Ishida, Chief Counsel, at 586-2180.

Sincerely,

Randall Y. Iwase
Chair

Enclosures

RYI:ljk

c: Consumer Advocate (w/o enclosures)
Pam Larson and David Nakashima, HWSC – Pukalani Division (w/o enclosures)

DEPT. COMM. NO. 15

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of)
)
HAWAII WATER SERVICE COMPANY, INC.) DOCKET NO. 2015-0236
)
For A General Rate Increase for its)
Pukalani Wastewater Division and for)
Approval of Revisions to its Tariff.)
)

ORDER NO. 34825

AMENDING PROPOSED DECISION AND ORDER NO. 34822

FILED
2017 SEP 18 P 2:58
PUBLIC UTILITIES COMMISSION

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of)) HAWAII WATER SERVICE COMPANY, INC.)) For A General Rate Increase for its) Pukalani Wastewater Division and for) Approval of Revisions to its Tariff.))	Docket No. 2015-0236 Order No. 34825

AMENDING PROPOSED DECISION AND ORDER NO. 34822

On September 15, 2017, the commission issued Proposed Decision and Order No. 34822 ("Proposed Decision and Order") in this docket.[1] The Proposed Decision and Order inadvertently did not include the results of operations schedules referenced therein.

The Proposed Decision and Order is hereby amended to include the results of operations schedules, which are attached to the instant Order.

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[1]The Parties to this docket are HAWAII WATER SERVICE COMPANY and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY, an ex officio party, pursuant to Hawaii Revised Statutes § 269-51 and Hawaii Administrative Rules § 6-61-62(a).

THE COMMISSION ORDERS:

1. Proposed Decision and Order No. 34822 is hereby amended to include the attached results of operations schedules.

2. In all other respects, Proposed Decision and Order No. 34822 remains unchanged.

DONE at Honolulu, Hawaii SEP 18 2017.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By
Randall Y. Iwase, Chair

By
Lorraine H. Akiba, Commissioner

By
James P. Griffin, Commissioner

APPROVED AS TO FORM:

Caroline C. Ishida
Commission Counsel

2015-0236.ljk

Docket No. 2015-0236
Hawaii Water Service Company - Pukalani
Results of Operations
Test Year Ending December 31, 2017

Description	Present Rates	Additional Amount	Proposed Rates at 7.75%	
REVENUES				
Residential	688,595	187,320	875,915	
Commercial	447,686	374,567	822,253	
Public Authority	11,166	(7,705)	3,461	
Effluent	35,546	-	35,546	
Power Cost Adjustment	(38,836)	38,836	-	
Power Cost Charge		177,669	177,669	
Total Operating Revenues	$ 1,144,157	$ 770,687	$ 1,914,844	67.36%
OPERATING EXPENSES				
Labor Expenses	$ 479,617		$ 479,617	
Fuel & Power	181,542		181,542	
Chemicals	34,586		34,586	
Materials & Supplies	13,274		13,274	
Waste/Sludge Disposal	37,087		37,087	
Affiliated Charges	62,830		62,830	
Professional and Outside Services	24,394		24,394	
Repairs & Maintenance	94,407		94,407	
Rental Expenses	3,969		3,969	
Insurance Expenses	5,890		5,890	
Regulatory Expenses	37,969		37,969	
General & Administrative Expenses	34,141		34,141	
Miscellaneous & Other Expenses	20,881		20,881	
Total O&M Expenses	$ 1,030,587	$ -	$ 1,030,587	
Taxes, Other Than Income	$ 73,054	$ 49,208	$ 122,263	
Depreciation	229,994		229,994	
Amortization	0		0	
Income Taxes	(99,976)	273,944	173,968	
Diff. due to changing factors				
Total Operating Expenses	$ 1,233,659	$ 323,152	$ 1,556,813	
Operating Income	$ (89,502)	$ 447,535	$ 358,031	
Average Rate Base	$ 4,619,762	$ -	$ 4,619,762	
Return on Rate Base	-1.94%		7.75%	

Docket No. 2015-0236
Hawaii Water Service Company - Pukalani
Average Rate Base
Test Year Ending December 31, 2017

Description		At December 31, 2016		At December 31, 2017		Average
Plant in Service	$	9,411,693	$	9,424,951	$	9,418,321
Less: Accumulated Depreciation		(2,131,364)		(2,457,512)		(2,294,438)
Net Plant-in Service	$	7,280,328	$	6,967,439	$	7,123,884
Less: ( )						
Net Contribution in Aid of Construction	$	(2,329,048)	$	(2,233,373)	$	(2,281,211)
Customer Advances		0		0		0
Customer Deposits		0		0		0
Accumulated Deferred Taxes - Federal		(92,277)		(109,108)		(100,692)
Accumulated Deferred Taxes - State		(12,690)		(15,127)		(13,909)
Unamortized Hawaii General Excise Tax Credit		(200,053)		(181,245)		(190,649)
Net Salvage Adjustment		0		0		(3,542)
Subtotal	$	(2,634,068)	$	2,538,854	$	(2,590,003)
Add:						
Working Capital		85,882		85,882		85,882
Retirements						
Subtotal	*$*	*85,882*	*$*	*85,882*	$	85,882
Total Rate Base	$	4,732,142	$	9,592,175		
Average Rate Base at Proposed Rate:					$	4,619,762

Docket No. 2015-0236
Hawaii Water Service Company - Pukalani
Taxes Other Than Income Tax
Test Year Ending December 31, 2017

Description	Revenues at Present Rates	Revenues at Proposed Rates	Tax Rates	Taxes at Present Rates	Taxes at Proposed Rates
Revenue Taxes					
Public Company Service Tax	$ 1,144,157	$ 1,914,844	5.885%	$ 67,334	$ 112,689
Public Utility Fee	1,144,157	1,914,844	0.500%	5,721	9,574
Total Taxes Other Than Income Taxes				$ 73,054	$ 122,263

Docket No. 2015-0236
Hawaii Water Service Company - Pukalani
Income Tax Expense
Test Year Ending December 31, 2017

Description				At Present Rates	At Proposed Rates
Total Revenues				$ 1,144,157	$ 1,914,844
Total Operations & Maintenance Expenses				1,030,587	1,030,587
Depreciation				229,994	229,994
Amortization				0	0
Taxes Other than Income Taxes				73,054	122,263
Total Operating Expenses				$ 1,333,635	$ 1,382,844
Operating Income before Income Taxes				(189,478)	532,000
Interest Expenses				52,046	52,046
State Taxable Income				*$ (241,524)*	*$ 479,954*
State Income Tax					
		Tax Rates	Less		
	Less than $25K	4.2150%	$ 1,054	1,054	1,054
	Over $25K, but less than $100K	5.0945%	3,821	3,821	3,821
	Over $100K	6.0150%	(20,543)	(20,543)	22,854
	Less Hawaii Capital Goods Excise Tax Credit			(11,390)	(11,390)
State Income Tax				$ (27,057)	$ 16,339
Federal Taxable Income				*$ (214,467)*	*$ 463,615*
Federal Income Tax					
		Tax Rates			
	Less than $50K	15.00%		7,500	7,500
	Over $50K, but less than $75K	25.00%		6,250	6,250
	Over 75K, but less than $100K	34.00%		8,500	8,500
	Over $100K, but less than $335K	39.00%		91,650	91,650
	Over $335K	34.00%		(186,819)	43,729
Rounding					
Federal Income Tax				$ (72,918)	$ 157,629
Total Federal and State Income Taxes				$ (99,976)	$ 173,968
Effective Tax Rate				41.3937%	36.2468%
State				11.2026%	3.4043%
Federal				34.0000%	34.0000%

Docket No. 2015-0236
Hawaii Water Service Company - Pukalani
Working Cash
Test Year Ending December 31, 2017

Description	Amount
Labor Expenses	$ 479,617
Fuel & Power	181,542
Chemicals	34,586
Materials & Supplies	13,274
Waste/Sludge Disposal	37,087
Affiliated Charges	62,830
Professional and Outside Services	24,394
Repairs & Maintenance	94,407
Rental Expenses	3,969
Insurance Expenses	5,890
Regulatory Expenses	37,969
General & Administrative Expenses	34,141
Miscellaneous & Other Expenses	20,881
Subtotal	1,030,587
Working Cash Factor	12
Working Cash	$ 85,882

CERTIFICATE OF SERVICE

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

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

J. DOUGLAS ING, ESQ.
PAMELA J. LARSON, ESQ.
DAVID Y. NAKASHIMA, ESQ.
WATANABE ING LLP
999 Bishop Street, 23rd Floor
Honolulu, HI 96813

Counsel for HAWAII WATER SERVICE COMPANY, INC.

97

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of)) HAWAII WATER SERVICE COMPANY, INC.)) For A General Rate Increase for its) Pukalani Wastewater Division and for) Approval of Revisions to its Tariff.))	DOCKET NO. 2015-0236

PROPOSED DECISION AND ORDER NO. 34822

FILED
2017 SEP 15 P 3:02
PUBLIC UTILITIES COMMISSION

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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of)
)
HAWAII WATER SERVICE COMPANY, INC.) Docket No. 2015-0236
)
For A General Rate Increase for its) Order No. 34822
Pukalani Wastewater Division and for)
Approval of Revisions to its Tariff.)

PROPOSED DECISION AND ORDER

By this Proposed Decision and Order, the commission approves an increase of $770,687, or approximately 67.36 percent over revenues at present rates, for HAWAII WATER SERVICE COMPANY, INC., Pukalani Wastewater Division ("HWSC" or "Applicant"), based on a total test year revenue requirement of $1,914,844 for the 2017 calendar test year ("Test Year").[1]

In so doing, the commission approves the Parties' Partial Stipulation of Settlement Agreement, filed on July 21, 2017 ("Partial Stipulation").[2] In issuing this Proposed Decision and

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[1]The Parties are HWSC 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 ("HAR") § 6-61-62(a).

[2]"Stipulation of the Parties for Partial Settlement; Exhibit A; and Certificate of Service," filed on July 21, 2017.

Order, the commission resolves the outstanding issue ("Outstanding Issue") in the Parties' Partial Stipulation, namely that the costs, in excess of the $9.598 million agreed upon in HWSC's last rate case in In re Hawaii Water Service Co., Inc., Docket No. 2011-0148 ("Additional Costs"), should not be included in HWSC's net plant-in-service. The disputed Additional Costs amount to $494,000.

The commission, in approving the Parties' Partial Stipulation and resolving the Outstanding Issue, authorizes an increase to HWSC's wastewater rates, under a four-year phase-in plan.

The commission timely issues this Proposed Decision and Order: (1) in response to HWSC's application, completed on December 16, 2016;[3] and (2) in accordance with Order No. 34284, in which the commission granted HWSC's request to utilize a nine-month, rather than a six-month, procedural schedule.[4]

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[3]See "Application; Exhibits HWSC 1 through HWSC 17; Exhibit HWSC-T-100 through HWSC-T-304; Verification; and Certificate of Service," filed on December 9, 2016, as amended by "Amendment of Application; Revised Exhibit HWS-T-100; Verification; and Certificate of Service," filed on December 16, 2016, and as corrected by HWSC's February 13, 2017 Letter, submitting a corrected page 8 of the Application (collectively, "Application"); Order No. 34344 "Regarding Completed Application and Other Initial Matters," filed on January 20, 2017 ("Order No. 34344") (finding that HWSC's Application was complete as of December 16, 2016).

[4]See Order No. 34284 "Partially Granting Hawaii Water Service Company, Inc.'s Motion to Waive the Provisions of Hawaii Revised

I.

BACKGROUND

HWSC, through its Pukalani Wastewater Division, is a public utility that provides wastewater collection and treatment services within its service territory located in Pukalani, Maui.[5] HWSC, a Hawaii corporation, is a wholly owned subsidiary of California Water Service Group ("CWSG"), a holding company incorporated in Delaware.[6] Besides HWSC, CWSG's operating, regulated subsidiaries in the continental United States include California Water Service Company (water service), New Mexico Water

[5]HWSC received its authority to provide such services pursuant to In re Pukalani STP Co., Ltd., and Hawaii Water Service Company, Inc., Docket No. 2007-0238, Decision and Order, filed on June 12, 2008, in which the commission approved the sale and transfer of Pukalani STP Co., Ltd.'s utility assets and certificate of public convenience and necessity to HWSC. On June 17, 2010, the commission approved HWSC's request to expand its service territory to include the Kauhale residential subdivision. See In re Hawaii Water Serv. Co., Inc., Docket No. 2009-0019, Decision and Order, filed on June 17, 2010.

[6]Application at 4, 5. HWSC also holds a CPCN to provide water service in Kaanapali Maui, and owns all of the stock of Waikoloa Sanitary Sewer Company, dba West Hawaii Sewer Company ("WHSC"), Waikoloa Water Co., Inc., dba West Hawaii Water Company, Waikoloa Resort Utilities, Inc., dba Waikoloa Utility Company, and Kona Water Service Company, Inc. (collectively, "HWSC's affiliates").

Service Company (water and wastewater services), and Washington Water Service Company (water and wastewater services).[7]

HWSC's Application states that its current Pukalani service territory includes "approximately 880 residential and commercial customers, located on the lower slopes of Haleakala."[8] According to HWSC, its customer base includes

> approximately 775 single family customers and three multi-family customers consisting of approximately ninety units. HWSC's fourteen commercial customers include two shopping centers, a park, pool, County of Maui community center, and two schools (one a public elementary school). In addition, Pukalani's service territory includes the Kauhale Lani residential subdivision, which will consist of approximately 170 residential lots.[9]

HWSC's water system consists of "a network of sewer and force mains, including two sewage pump stations, to collect the wastewater, and a wastewater treatment plant (the 'WWTP')."[10] The WWTP produces R-1 quality effluent, which is first discharged

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[7]Application at 5.

[8]Application at 4. In the Partial Stipulation, the Parties note an updated customer count of 923 residential customers (consisting of 775 residential customers and 146 multi-family customers), 2 public authority customers (Pukalani Elementary School and Hannibal Tavares Community Center), and 13 commercial customers.

[9]Application at 4. The Kauhale Lani residential subdivision construction project had not commenced yet at the time that HWSC filed its Application. Id. See supra note 8, regarding the Parties' updated customer count.

[10]Application at 4.

into a two-million gallon pond, and then pumped to the adjacent Pukalani Country Club Golf Course for use in irrigation.[11] HWSC is not proposing an increase to its effluent rate in this proceeding.

HWSC's existing rate design consists of: (1) a fixed monthly rate for residential customers, Pukalani Elementary School, and the Hannibal Tavares Community Center; (2) a quantity rate for commercial customers based on the customer's monthly water usage per thousand gallons ("TG"); (3) a usage charge for effluent based on the Pukalani Country Club Golf Course's monthly effluent usage per TG; (4) a power cost adjustment clause; and (5) a service connection charge.

HWSC's existing rate design, which includes a two-year phase-in plan, approved in its last rate case, provides as follows:[12]

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[11]Application at 4.

[12]See HWSC's Tariff No. 1, First Revised Exhibit B, at 1; Application, Exhibit HWSC 4, at 1.

SEWER ASSESSMENT FEES

FIRST PHASE: From January 14, 2014, to January 13, 2015

RESIDENTIAL: $44.97 per month per single family or multi-family unit
COMMERCIAL: $6.20 per 1,000 gallons of water used
PUKALANI ELEMENTARY SCHOOL: $472.47 per month
COMMUNITY CENTER: $107.38 per month

SECOND PHASE: From January 14, 2015 to January 13, 2016

RESIDENTIAL: $53.57 per month per single family or multi-family unit
COMMERCIAL: $7.3915 per 1,000 gallons of water used
PUKALANI ELEMENTARY SCHOOL: $653.25 per month
COMMUNITY CENTER: $148.47 per month

THIRD PHASE: From January 14, 2016

RESIDENTIAL: $62.17 per month per single family or multi-family unit
COMMERCIAL: $8.5786 per 1,000 gallons of water used
PUKALANI ELEMENTARY SCHOOL: $758.16 per month
COMMUNITY CENTER: $172.31 per month

EFFLUENT SALES: $0.55 per 1,000 gallons effective October 1, 2005

POWER COST ADJUSTMENT CLAUSE (PCAC)

Beginning on February 1, 2014, the percentage change (increase or decrease) that will be applied to a Customer's sewer assessment fee (not including the effluent charge) for each 12-month period from February 1 through January 31 of the following year shall be calculated as follows:

Percent Change = [((Measurement Year Factor - $0.3627) x 604,991 kWh) x 1.068205] / Total Revenues

Measurement Year:	The calendar year immediately preceding the calculation.
Measurement Year Factor:	Electricity expense for Measurement Year/ total kWh for Measurement Year.
$0.3627:	The Test Year cost per kWh.
604,991 kWh:	The Test Year kWh usage.
1.068205:	The Factor to account for Revenue Taxes.
Total Revenues:	Total revenues for Measurement Year excluding effluent revenues.

SERVICE CONNECTION: $500.00 DEPOSIT, SUBJECT TO REFUND IF GREATER THAN ACTUAL COST, OR SUBJECT TO ADDITIONAL PAYMENT IF LESSER THAN ACTUAL COST

A.

Docket No. 2011-0148

HWSC's present sewage assessment fees took effect from January 14, 2014 through January 14, 2016, on a two-year phased-in basis, pursuant to its July 1, 2011 to June 30, 2012 test year rate case, In re Hawaii Water Service Company, Inc., Docket No. 2011-0148 ("Docket No. 2011-0148).[13]

B.

Application

HWSC filed its Application on December 9, 2016, as amended on December 16, 2016, requesting approval of rate increases and changes to its tariff. HWSC requests commission approval of a net increase in revenues of $1,275,598 (approximately 113.5 percent) over its pro forma revenue amount of $1,123,833 at present rates for the 2017 Test Year.[14] If approved, HWSC alleges that the requested increase would provide HWSC the opportunity to earn a 7.75% rate of return.[15]

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[13]See Docket No. 2011-0148, Proposed Decision and No. 31760, filed on December 23, 2013; Decision and Order No. 31810, filed on January 14, 2014.

[14]Application at 6.

[15]Application at 6.

By its Application, HWSC proposes to restructure its rate design by: (1) converting Pukalani Elementary School from a fixed monthly rate to the commercial quantity rate; and (2) implementing monthly meter charges for commercial customers based on the size of the customer's meter. HWSC additionally proposes to phase in its rate increase over a five-year period. HWSC does not propose to phase-in any increases to the proposed monthly meter charges for commercial customers after they are implemented in year 1 of the proposed rate phase-in.[16] HWSC does not seek to change the $0.55/TG quantity rate for effluent.[17]

HWSC provides the following table to explain its present and proposed rates/charges:

---

[16]Application, HWSC-T-100 (Revised), at 30. HWSC states that "the monthly fixed charge for commercial customers will not be phased in because the amount collected is small when compared to the revenue collected through volumetric rates."

[17]Application, HWSC-T-100 (Revised), at 26. As noted above, the WWTP produces R-1 quality effluent, which is first discharged into a two-million gallon pond, and then pumped to the adjacent Pukalani Country Club Golf Course for use in irrigation. Application at 4.

Monthly Sewer Fees	Present Rates	Proposed Rate Phase-in									
		Year 1		Year 2		Year 3		Year 4		Year 5	
Residential	$ 62.17	$ 55.22	-11.2%	$ 68.12	23.4%	$ 81.07	19.0%	$ 94.06	16.0%	$ 101.08	7.5%
Commercial											
Fixed Charge by meter size											
5/8"	$ -	$ 16.12	100.0%	$ 16.12	0.0%	$ 16.12	0.0%	$ 16.12	0.0%	$ 16.12	0.0%
3/4"	$ -	$ 16.12	100.0%	$ 16.12	0.0%	$ 16.12	0.0%	$ 16.12	0.0%	$ 16.12	0.0%
1"	$ -	$ 32.24	100.0%	$ 32.24	0.0%	$ 32.24	0.0%	$ 32.24	0.0%	$ 32.24	0.0%
1 1/2"	$ -	$ 48.36	100.0%	$ 48.36	0.0%	$ 48.36	0.0%	$ 48.36	0.0%	$ 48.36	0.0%
2"	$ -	$ 80.60	100.0%	$ 80.60	0.0%	$ 80.60	0.0%	$ 80.60	0.0%	$ 80.60	0.0%
3"	$ -	$ 274.05	100.0%	$ 274.05	0.0%	$ 274.05	0.0%	$ 274.05	0.0%	$ 274.05	0.0%
4"	$ -	$ 274.05	100.0%	$ 274.05	0.0%	$ 274.05	0.0%	$ 274.05	0.0%	$ 274.05	0.0%
6"	$ -	$ 274.05	100.0%	$ 274.05	0.0%	$ 274.05	0.0%	$ 274.05	0.0%	$ 274.05	0.0%
Quantity Rate	$8.5786	$11.0784	29.1%	$13.7276	23.9%	$16.3882	19.4%	$19.0559	16.3%	$20.4990	7.6%
Public Authority											
Government/Education	$758.16	$ -	-100.0%	$ -	0.0%	$ -	0.0%	$ -	$-	$ -	
Government/Recreation	$172.31	$ 215.39	25.0%	$ 258.47	20.0%	$ 301.54	16.7%	$ 344.62	14.3%	$ 367.89	6.8%
Effluent	$ 0.55	$ 0.55	0.0%	$ 0.55	0.0%	$ 0.55	0.0%	$ 0.55	0.0%	$ 0.55	0.0%

As part of its Application, HWSC also requests that the commission grant approval to HWSC to: (1) "replace the existing Power Cost Adjustment Clause [] with a Power Cost Charge [] that would include all electrical costs and would be shown as a separate line item on the customer's bill[;]"[18] (2) revise HWSC's Tariff No. 1 by revising Rule XIV regarding Contributions in Aid of Construction ("CIAC") and "to adopt a new Rule XV governing System Extensions to make these provisions consistent with revisions to the tariffs established in other recent HWSC rate cases;"[19] and (3) "replace its existing unit depreciation rates with group depreciation

[18]Application at 12.

[19]Application at 13.

rates[.]"[20] HWSC further proposes to include the full cost of its WWTP in plant-in-service.[21]

HWSC submitted a cost of service study in support of its proposed rate restructuring.[22]

HWSC, in support of its proposed rate increases, states that: (1) HWSC's "current rates do not now and will not in the foreseeable future produce sufficient revenues to allow it to earn a fair rate of return on its prudently incurred investment[;]"[23] (2) "[f]or annualized calendar year 2016, on a pro forma basis, Applicant had revenues of approximately $1,024,718 and a -3.70% rate of return for the wastewater operations in its Pukalani service territory[;]"[24] (3) "[f]or the test year, Applicant projects revenues of approximately $1,123,833 and a -5.53% rate of return at present rates[;]"[25] and (4) since Pukalani's last rate case, Applicant has installed certain

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[20]Application at 3, 14.

[21]Application at 7. HWSC explains that, in Pukalani's last general rate case, "HWSC agreed to exclude a portion of its [WWTP] from plant in service in order to mitigate the impact of the requested rate increase on rate payers." Id.

[22]See Application at 7, Exhibit HWSC-T-103.

[23]Application at 6.

[24]Application at 6.

[25]Application at 6.

"necessary and important"[26] capital improvements that "will be in full operation by the end of the test year or earlier."[27]

C.

Public Hearing

On March 16, 2017, the commission held a public hearing on the requests set forth in HWSC's Application, at the Pukalani Elementary School cafeteria, pursuant to HRS §§ 269-12(c) and 269-16(f). At the public hearing, HWSC's representative, the Consumer Advocate, and ratepayers appeared and testified. In general, ratepayers object to or express concerns with the proposed increases to HWSC's rates.[28]

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[26]Application at 6.

[27]Application at 6-7. More specifically, HWSC states that it has installed the following: "two emergency standby generators, a Laboratory Information Management System, and Human Machine Interface software." Id. at 6.

[28]See, e.g., Transcript of the Public Hearing held on March 16, 2017; and public hearing sign-up sheet and written testimonies, dated March 1, 2017.

D.

Procedural Background

On May 17, 2017, the Consumer Advocate filed its Direct Testimonies and Exhibits ("Direct Testimonies").[29] HWSC filed its Rebuttal Testimonies and Exhibits on June 21, 2017 ("Rebuttal Testimonies").[30] Subsequently, on July 21, 2017, the Parties filed their Partial Stipulation, in which they reached agreement on all issues except for the Outstanding Issue: whether the costs, in excess of the $9.598 million agreed upon in Docket No. 2011-0148 (i.e., the Additional Costs) should be included in plant in service. The disputed Additional Costs amount to $494,000.

The Parties filed their respective statements of position on the Outstanding Issue on July 25, 2017.[31]

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[29]"Division of Consumer Advocacy's Direct Testimonies and Exhibits; and Certificate of Service," filed on May 17, 2017.

[30]"Hawaii Water Service Company, Inc.'s Rebuttal Testimonies and Exhibits; and Certificate of Service," filed on June 21, 2017.

[31]"Division of Consumer Advocacy's Post-Stipulation Statement of Position Concerning the Outstanding Issue Between Hawaii Water Service Company, Inc. and the Division of Consumer Advocacy; Attachment 1; and Certificate of Service," filed on July 25, 2017 ("CA SOP on Outstanding Issue"); "Hawaii Water Service Company, Inc.'s Statement of Position on the Outstanding Issue; Exhibits A-D; and Certificate of Service," filed on July 25, 2017 ("HWSC SOP on Outstanding Issue").

E.

Issues

As stipulated by the Parties, the issues are:

1. Are HWSC's proposed rate increases reasonable?

   a. Are the proposed tariffs, rates and charges just and reasonable?

   b. Are the revenue forecasts for the January 1, 2017 through December 31, 2017 test year (the "Test Year") at present rates and proposed rates reasonable?

   c. Are the projected operating expenses for the Test Year Reasonable?

   d. Is the projected rate base for the Test Year reasonable, and are the properties included in the rate base used and useful for public utility purposes?

   e. Is the rate of return requested fair?

2. Should the Commission approve HWSC's request to replace the Power Cost Adjustment Clause with a Power Cost Charge to include all electricity charges?

3. Should the Commission approve HWSC's other proposed changes to its Tariff No. 1?

4. Should the Commission approve HWSC's request to replace its existing unit depreciation rates with group depreciation rates?[32]

[32]Partial Stipulation at 5-6.

II.

DISCUSSION

A.

Timeline for Proposed Decision and Order

HRS § 269-16 is the ratemaking statute that applies to public utilities, including HWSC. Subsection (f) applies to public utilities with annual gross revenues of less than $2 million (i.e., < $2 million), while subsection (d) applies to public utilities with annual gross revenues of $2 million or more (i.e., ≥ $2 million).

Subsection (f) (< $2 million) provides, in part, that the commission shall make every effort to issue a *proposed* decision and order within *six months* from the filing of a completed application (subject to certain conditions precedent).[33] Conversely, HRS § 269-16(d) requires the commission to make every effort to issue its *final* decision and order within *nine months* from the filing of the completed application.[34]

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[33]HRS § 269-16(f)(3).

[34]The differences between HRS § 269-16, subsections (f) and (d) include:

1. The different time frames by which the commission must make every effort to issue a proposed or final decision and order;

2. The requirement that pursuant to subsection (f)(3), the commission issue a *proposed* decision and order within six months following the filing of a completed

HWSC represents that it is a public utility with annual gross operating revenues of less than $2 million.[35] As such, HRS § 269-16(f) and HAR § 6-61-88 (requirements for general rate increase applications filed by a public utility with annual gross revenues of less than $2 million) apply to this proceeding.[36]

On October 2, 2015, HWSC filed a motion to waive the provisions of HRS § 269-16(f).[37] In Order No. 34284, filed on

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application (subject to certain conditions precedent). Conversely, subsection (d) does not mandate the issuance of a *proposed* decision and order; and

3. The less stringent content requirements for an application filed pursuant to subsection (f).

[35]Application at 2 n.1; see also id. at Exhibit HWSC 6.

[36]HWSC filed its Application pursuant to HAR § 6-61-87, which sets forth the requirements for general rate increase applications by a public utility with annual gross operating revenues of $2,000,000 or more, rather than pursuant to HAR § 6-61-88. Application at 13. HWSC explains that it "provided the items required under HAR § 6-61-87" because it "requested that the [c]ommission waive the requirements of HRS § 269-16(f) [ ] and instead order that the provisions of HRS § 269-16(d) apply to this Application." Application at 2 n.1. As discussed in Order No. 34344, "[b]ecause HWSC represents that the 'annual revenues for its Pukalani wastewater division at present rates will be less than $2,000,000 for the test year[,]' the commission will apply the requirements of HAR § 6-61-88, as required by the commission's rules of practice and procedure." Order No. 34344 at 11-12 (quoting Application at 2 n.1). The commission determined that HWSC's Application was complete and properly filed under HRS § 269-16(f) and HAR § 6-61-88. Order No. 34344 at 12.

[37]"Motion to Waive the Provisions of H.R.S. § 269-16(f); Memorandum in Support of Motion; Verification of Paul Townsley; and Certificate of Service," filed on October 2, 2015 ("Memorandum in Support of Motion to Waive the Provisions of HRS § 269-16(f)").

January 5, 2017, the commission granted HWSC's request "to proceed under a nine-month, rather than a six-month, procedural schedule, as contemplated under HRS § 269-16(d)[.]"[38] However, the commission denied HWSC's more general request to waive other provisions of HRS § 269-16(f).[39]

In partially granting HWSC's motion, the commission stated: "the subject proceeding shall be subject to a nine-month procedural schedule, as contemplated under HRS § 269-16(d), and as will be further ordered by the commission when it adopts a procedural schedule."[40]

Pursuant to Order No. 34344 "Regarding Completed Application and Other Initial Matters," which determined that the date of HWSC's completed application was December 16, 2016, and Order No. 34474 "Approving the Parties' Stipulated Procedural Order," filed in this docket on April 4, 2017, the nine-month deadline to issue the Proposed Decision and Order is no later than September 16, 2017.[41]

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[38]Order No. 34284 at 8; see also id. at 6-8 (discussing the generally phrased and specifically phrased requests within HWSC's Motion to Waive the Provisions of HRS § 269-16(f)).

[39]Order No. 34284 at 8, 11.

[40]Order No. 34284 at 9.

[41]Because September 16, 2017, is a Saturday, the nine-month deadline to issue the Proposed Decision and Order is Monday, September 18, 2017. See HRS §§ 269-16(d)(nine months from the filing date of a completed application); 1-20 ("month" means

The commission timely issues this Proposed Decision and Order, in accordance with Order No. 34284.

B.

Parties' Consensus and Non-Consensus

The Parties' Partial Stipulation reflects their agreement on the following specific issues:

1. Revenues at present rates;

2. Operating and maintenance ("O&M") expenses at present rates for labor, fuel & power, chemicals, materials & supplies, waste/sludge disposal, affiliated charges, professional & outside services, repairs & maintenance, rental, insurance, regulatory (i.e., rate case expense), general & administrative, and miscellaneous & other.

3. The methodologies for calculating revenue taxes (i.e., taxes other than income taxes) and income taxes, respectively, at present and proposed rates;

4. Rate design;

5. Rate of return; and

6. Revisions to certain tariff provisions.

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a calendar month); 1-29 (when any act provided by law is to be done, the computation of time includes the last day, unless the last day is a Saturday, Sunday, or holiday, which is excluded); and 1-16 (laws upon the same subject matter shall be construed with reference to each other).

However, the Parties could not reach agreement on depreciation expense and the overall average depreciated rate base balance (although the Parties were able to agree on net CIAC, net salvage adjustment, and working cash balance, they did not reach agreement on plant-in-service, accumulated depreciation, Accumulated Deferred Income Taxes ("ADIT"), and Hawaii Capital Goods Excise Tax Credit ("HCGETC")) because of the Outstanding Issue). The Parties' respective positions on the Outstanding Issue and all of the corresponding ratemaking accounts are primarily reflected in the Consumer Advocate's and HWSC's Statements of Position on the Outstanding Issue, filed on July 25, 2017.

The Parties, in reaching agreement on the majority of issues, ultimately acknowledge that: (1) the Partial Stipulation is subject to the commission's review and approval; and (2) the commission is not bound by the Partial Stipulation.[42]

In this regard, it is well-settled that an agreement between the parties in a rate case cannot bind the commission, as the commission has an independent obligation to set fair and just rates and arrive at its own conclusion.[43]

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[42]Partial Stipulation at 2, and 46-47.

[43]In re Hawaiian Elec. Co., Inc., 5 Haw. App. 445, 447, 698 P.2d 304, 307 (1985).

C.

Revenues

Based on HWSC's existing rate design, the Parties stipulate to the following estimates of HWSC's revenues at present rates:[44]

Revenues	Present Rates
Residential	$688,595
Commercial	$447,686
Public Authority	$11,166
Effluent	$35,546
Power Cost Adjustment	($38,836)
Total	**$1,144,157**

The basis for the Parties' agreed-upon estimates of HWSC's revenues from its various customer classes at present rates is set forth below.[45]

1.

Residential

HWSC forecasted a total of 923 residential customers, consisting of 775 single-family customers and 146 multi-family customers.[46] Based on this customer count, HWSC projected Test Year

[44]See Partial Stipulation at 9-10 and Exhibit A, Schedule 8.1.

[45]HWSC's current rate structure is set forth in HWSC Tariff No. 1, First Revised Exhibit "B", at 1, attached as Exhibit 4 to the Application.

[46]HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibit HWSC 8.2). In the Application, HWSC had initially forecasted a total of 921 residential customers, but updated the

revenue at present rates of $579,673 from single-family residential customers and $108,922 from multi-family residential customers, for a total of $688,595.[47] The Consumer Advocate also projected a customer count of 923 residential customers and Test Year revenue at present rates of $688,595.[48]

The commission finds reasonable the Parties' stipulated amount of Test Year revenue at present rates from residential customers of $688,595 (923 residential customers x $62.17/month x 12 months = $688,595 (rounded)).

2.

Public Authority

HWSC counted two public authority customers for the test year: Pukalani Elementary School, which is currently charged a flat monthly rate of $758.16 per month, and Hannibal Tavares Community Center, which is currently charged a flat monthly rate of $172.31.[49]

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information in its revised exhibits. Application, HWSC-T-100 (Revised), at 3-4.

[47]HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibit HWSC 8.1); Partial Stipulation at 8.

[48]Direct Testimonies, CA-T-2, at 6, and Exhibit CA-201; Partial Stipulation at 8.

[49]HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibit HWSC 8.2); Application, HWSC Exhibit 4; Partial Stipulation at 8.

HWSC thus projected Test Year revenue at present rates of $11,166 from its public authority customers,[50] which was consistent with the Consumer Advocate's projections.[51]

The commission finds reasonable the Parties' stipulated amount of Test Year revenue at present rates from its public authority customers of $11,166 (($758.16 x 12 months) + ($172.31 x 12 months) = $11,166 (rounded)).

3.

Commercial

HWSC projected 13 commercial customers for the Test year, and projected Test Year revenues at present rates of $447,686, based on billed sewer flows of 52,186 TG.[52] The Consumer Advocate similarly projected Test Year revenue at present rates from commercial customers of $447,686.[53]

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[50]Application, Exhibit HWSC 8.1; Partial Stipulation at 8-9.

[51]Direct Testimonies, CA-T-2, at 9, and Exhibit CA-201; Partial Stipulation at 9.

[52]HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibits HWSC 8.1 and 8.2); Partial Stipulation at 9. The Parties state that references to "billed sewer flows" mean "volumetric charges that are assessed on commercial customers based on water flows." Id. at 8. HWSC gets the billed water usage data from County-issued water bills provided by its commercial customers. Partial Stipulation at 44.

[53]Direct Testimonies, CA-T-2, at 12, and Exhibit CA-202; Partial Stipulation at 9.

The commission finds reasonable the Parties' stipulated amount of Test Year revenue at present rates from commercial customers of $447,686 ($8.5786/TG x 52,186 TG = $447,686 (rounded)).

4.

Effluent Revenues

HWSC projected Test Year effluent revenues at present rates of $35,546, based on Test Year effluent sales of 64,629 TG.[54] The Consumer Advocate projected the same Test Year effluent revenues of $35,546, based on the same level of effluent sales.[55]

The commission finds reasonable the Parties' stipulated amount of Test Year revenue at present rates from effluent sales of $35,546.

5.

Automatic Power Cost Adjustment Revenues

The Parties stipulate to Automatic PCAC revenues in the amount of ($38,836) at present rates, an amount that is based on

[54]HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibits HWSC 8.1 and 8.2); Partial Stipulation at 9. The existing rate for HWSC effluent is $0.55/TG, thus 64,629 TG x $0.55 = $35,546.

[55]Direct Testimonies, CA-T-2, at 16, and Exhibit CA-203; Partial Stipulation at 9.

the revenues generated from HWSC's existing Automatic PCAC (see HWSC's Tariff No. 1).[56]

The commission finds reasonable the Parties' stipulated amount of Automatic PCAC revenues at present rates of ($38,836).[57]

Consistent with ratemaking principles, the commission notes that the amount of Automatic PCAC revenues is "zeroed out" in calculating HWSC's Test Year revenue requirement. Specifically, the amount of HWSC's increase in revenues over present rates is reset to zero for ratemaking purposes.[58]

The commission also notes that HWSC, by its Application, seeks to "replace the existing [Automatic PCAC] with a Power Cost Charge ("PCC") that would include all electrical costs and would be shown as a separate line item on the customer's bill."[59] This proposed tariff change is addressed in Proposed Tariff Revisions, Section II.H, below.

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[56]See Application at 12, Exhibit HWSC 4, and Exhibit HWSC-T-100 (Revised) at 23-24 (references to HWSC's Automatic PCAC); and Partial Stipulation at 9.

[57]See HWSC's SOP on Outstanding Issue at Exhibit A, Schedule 8.7.

[58]See commission's results of operation schedules, attached to this Proposed Decision and Order; see also Docket No. 2016-0229, In re Laie Water Co., Inc., Proposed Decision and Order No. 34428, filed on February 27, 2017, at 21.

[59]Application at 12.

6.

Total Revenues at Present Rates

The commission, in sum, finds reasonable the Parties' stipulated amount of $1,144,157 in revenues at present rates, comprised as follows:

Revenues	Present Rates
Residential	$688,595
Commercial	$447,686
Government/Education	$9,097
Government/Recreation	$2,068
Effluent	$35,546
Power Cost Adjustment	($38,836)
Total	**$1,144,157**

D.

Expenses

HWSC's Test Year expenses consist of O&M (i.e., operations and maintenance) and non-O&M expenses.

HWSC uses an "internal 4-factor methodology to allocate general operations costs among its regulated utility companies," and states that "[t]he four factors used to determine the allocation include the number of customer equivalents, gross plant in service, direct operations & maintenance expenses, and direct gross payroll."[60] The allocations initially set forth in HWSC's

[60]Application, Exhibit HWSC-T-100 (Revised), at 6. HWSC states that the four-factor methodology "is a widely accepted technique used to determine proper allocation of general costs to specific business units." Id. at 7.

Application, as revised, were 10.66% from Department 790 (Hawaii General Office, which includes payroll for the positions assigned to the General office, as well as indirect expense charges), 37.04% from Department 710 (Maui operations, including payroll and indirect labor and expense), and 28.32% from Department 796 (payroll for HWSC's Wastewater Administration, and indirect expense charges).[61] HWSC stated that it had not revised this four-factor allocation ("initial four-factor allocation methodology"), since 2013.[62]

In response to CA-IR-22.a and in the course of further discussions between the Parties, HWSC updated its four-factor allocations ("updated four-factor allocation methodology") for 2016 and 2017, for Departments 790, 719, and 796, to 6.87%, 25.69%, and 17.22%, respectively.[63] The Consumer Advocate did not take issue with the use of the updated four-factor methodology or the amount of shared expense and plant costs that have been allocated in the

[61]HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibit HWSC 8.4).

[62]Application, Exhibit HWSC-T-100 (Revised), at 6.

[63]See HWSC response to CA-IR-22.a; Direct Testimonies, CA-T-1, at 22 (stating that "during technical meetings, the Consumer Advocate discussed and requested HWSC Pukalani's four-factor allocations for 2016 and 2017. Thereafter, HWSC Pukalani revised its 2016 and test year 2017 four-factor allocations and provided revised Exhibits on April 28, 2017.").

rate case.[64] The Parties further agreed that in pending and future rate cases for other HWSC business units, HWSC will use substantially the same methodology to allocate shared expenses.[65]

As such, and consistent with the commission's approval of the four-factor allocation methodology used in HWSC's affiliates' rate case dockets, the commission finds the use and application of the updated four-factor allocation methodology and the percentages used for this rate case proceeding to be reasonable.

1.

Operations and Maintenance Expenses

The Parties stipulate to all the amounts for O&M expenses at present rates, as follows:

Description	Parties' Agreement
Labor	$479,617
Fuel & Power	$181,542
Chemicals	$34,586
Materials & Supplies	$13,274
Waste/Sludge Disposal	$37,087
Affiliated Charges	$62,830
Professional & Outside Services	$24,394
Repairs & Maintenance	$94,407
Rental	$3,969
Insurance	$5,890
Regulatory	$37,969
General & Administrative	$34,141
Miscellaneous & Other	$20,881

[64]Partial Stipulation at 11.

[65]Partial Stipulation at 11-12.

a.

Labor

HWSC's labor costs are "shared among the various companies and systems operated by HWSC in Hawaii, and each system's share of the labor cost is based on [the] four-factor allocation methodology[,]" and labor expense "is based on the cost of total labor, including wages, benefits[,] and payroll taxes."[66]

In revised exhibits to the Application, which were filed on March 22, 2017, based on HWSC's actual expenses as of December 31, 2016, HWSC proposed a total Test Year labor expense of $584,264, which was comprised of:[67]

Payroll	$349,859
Employee benefits	$205,594
Payroll taxes	$28,812
Total Labor Expense	**$584,264**

HWSC's proposed payroll expense (operating labor) was calculated based on its initial four-factor allocation methodology applied to total wages,[68] and by escalating estimated 2016 payroll by 2.5%, to arrive at 2017 payroll expense.[69] Pension benefits and retiree healthcare were derived based on a Millman Group study,

[66]Application, Exhibit HWSC-T-200, at 3.

[67]HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibit HWSC 8.5).

[68]Application, Exhibit HWSC-T-201 (confidential).

[69]Application, Exhibit HWSC-T-200, at 3.

based on actual healthcare premiums for HWSC's employees across all of its affiliates, which was then allocated to HWSC using the initial four-factor methodology.[70]

The Consumer Advocate proposed two payroll expense adjustments: (1) that payroll expense be adjusted based on the updated four-factor allocation methodology; and (2) that payroll expense be adjusted based on the replacement of the General Manager, and then recommended adjustments to employee benefits and payroll taxes based on the payroll expense adjustments.[71]

In its Rebuttal Testimonies, HWSC agreed with the Consumer Advocate's adjustment to payroll expense, and proposed an additional adjustment to employee benefits expense to reflect updated health care benefits for the Test Year based on a health care expense study for 2017, with which the Consumer Advocate agreed.[72] The Parties also stipulated to a downward adjustment to payroll taxes to reflect payroll expense adjustments incorporating the updated four-factor allocation and replacement of the General

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[70]Application, Exhibit HWSC-T-200, at 3.

[71]Direct Testimonies, CA-T-1 at 24-25.

[72]Rebuttal Testimonies, HWSC-RT-200, at 9-10. Based on the study, HWSC proposed to reduce its healthcare expense from $104,936 to $92,470. Id.; see also Partial Stipulation at 14.

Manager.[73] Thus, the Parties stipulated to the following total labor expense for the Test Year:

Payroll	$282,751
Employee benefits	$174,511
Payroll taxes	$22,355
Total Labor Expense	**$479,617**

Based on the Parties' agreement regarding payroll expense, employee benefits, and payroll taxes, and the fact that the amount was calculated consistent with the four-factor allocation methodology used and approved in HWSC's affiliated rate cases, the commission finds reasonable the Parties' stipulated Test Year labor expense of $479,617.

b.

Fuel & Power

The Parties stipulate to fuel and power expense of $181,542, calculated as follows:

1. HWSC's purchased fuel for power production expense of $524, based on a two-year average of those expenses for 2015 and 2016;[74]

2. HWSC's two-year average of both the unit cost of power, and power consumption, for 2015 and 2016, equaling

[73]Partial Stipulation, Exhibit A, Exhibit 8.5.

[74]See Rebuttal Testimonies, Exhibit HWSC-RT-200, at 12-16; Partial Stipulation at 15-16 (citing Rebuttal Testimonies).

654,448 kilowatt-hours ("kWh") at $0.2766/kWh, for a total of $181,018.

The commission finds reasonable the Parties' stipulated estimate of $181,542 in fuel and power expense at present rates.

c.

Chemicals, Materials & Supplies, Waste/Sludge Disposal, Professional and Outside Services, Repairs & Maintenance, General & Administrative, and Miscellaneous & Other

The Parties stipulate to the following amounts for these seven expense accounts:

Chemicals	$34,586
Materials & Supplies	$13,274
Waste/Sludge Disposal	$37,087
Professional & Outside Services	$24,394
Repairs & Maintenance	$94,407
General & Administrative	$34,141
Miscellaneous & Other	$20,881

The Parties' stipulated amounts for these seven expense accounts are based on: (1) HWSC's historical data for the three-year 2014-2016 period; and (2) the cumulative application of the Honolulu Consumer Price Index during this three-year historical period.[75]

[75]See Partial Stipulation, Section III.D.5, Chemicals, at 17; Section III.D.6, Materials and Supplies, at 17; Section III.D.7, Waste/Sludge Disposal, at 18; Section III.D.9, Professional and Outside Services, at 19-20; Section III.D.10, Repairs and Maintenance, at 20-21; Section III.D.14, General and Administrative Expense, at 23-24; Section III.D.15, Miscellaneous and Other Expense, at 24-25; and Exhibit A thereto.

The commission finds reasonable the Parties' stipulated estimates for these seven expense accounts at present rates.

d.

Affiliated Charges

Affiliated charges are "CWSG's expenses [] allocated to its subsidiaries based on relative proportions of work being performed."[76] These expenses are largely encompassed by Customer Support Services, which include departments such as corporate governance, audit, accounting and finance, information technology, human resources, and communications.[77] Per HWSC, this "centralized service model" is more "cost effective [] than to hire the specific expertise needed for each particular subsidiary."[78]

In Docket No. 2015-0230, HWSC Kaanapali and the Consumer Advocate agreed to remove incentive compensation and certain other expenses from its account 791000 - Administrative & General Salaries, which contained: (1) incentive pay, (2) mileage, (3) RSF Admin Cost, a rate support fund program for high rate areas in California, (4) Aged EE Ltd, which is a California-specific cost,

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[76]Application, Exhibit HWSC-T-200, at 6.

[77]Application, Exhibit HWSC-T-200, at 6.

[78]Application, Exhibit HWSC-T-200, at 6.

and (5) other and payroll.[79] HWSC applied the same adjustments to its affiliated charges in this rate case.[80]

HWSC, in its Application, estimates an amount of $99,691 for the Test Year.[81]

The Consumer Advocate, "recommended that the Affiliated Charges expense be adjusted to reflect the [updated] four factor allocation factors for each of the years used in calculating the Test Year expense (2014 through 2016)[,]" and with that adjustment, the Consumer Advocate's revised estimate of Affiliated Charges was $62,830.[82]

In their Partial Stipulation, the Parties state that "HWSC agreed with the Consumer Advocate's adjustment to Affiliate Charges expense," and that the Parties stipulate to $62,830 in Affiliated Charges for the Test Year.[83]

The commission finds that the adjustments made to the affiliated charges are consistent with those made in recent CWSG

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[79]Direct Testimonies, CA-T-1 at 35.

[80]Direct Testimonies, CA-T-1 at 35.

[81]HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibit HWSC 8.11).

[82]Partial Stipulation at 18 (citing Direct Testimonies, CA-T-1 at 36, and Exhibit CA-111).

[83]Partial Stipulation at 18, and Exhibit A, Exhibit HWSC 8.11 thereto.

affiliated rate cases, and resulted in the Parties' agreement regarding the Test Year amount prior to filing the Partial Stipulation. As such, the commission finds that the Parties' Test Year estimate of affiliated charges is reasonable.

e.

Rental

HWSC states that rental expenses "consist[] of expenses related to existing leases[,]" but "[t]he only lease for HWSC General Office that is allocated to Pukalani is the administrative offices in the Waikoloa Highlands Shopping Center in Waikoloa."[84] Both HWSC and the Consumer Advocate estimated rent, based on the updated four factor allocation, at $3,969, and stipulated to a Test Year Rental Expense of $3,969.[85]

The commission finds the stipulated Test Year estimate for Rental Expense to be reasonable.

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[84]Application, Exhibit HWSC-T-200, at 10.

[85]Partial Stipulation at 21 (citing Direct Testimonies).

f.

Insurance

The Parties stipulate to $5,890 in insurance expense, based on a 2016/2017 Marsh Insurance quote of $8,687 to which they applied the updated four-factor allocation methodology.[86]

The commission finds reasonable the Parties' stipulated test year estimate of $5,890 in insurance expense.

g.

Regulatory

The Parties stipulate to a regulatory expense, which they describe as "expenses on expected work and activities related to this rate case,"[87] of $37,969.[88]

In its Application, HWSC separated out its regulatory expense by phases, which included a "preparation & filing expense [($16,500)], discovery & settlement expense [($137,500)], and hearings & briefing expense [($25,000)]."[89] Based on these

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[86]Direct Testimonies, Exhibit CA-T-1, at 43. See also Partial Stipulation at 21-22.

[87]Application, Exhibit HWSC-T-200, at 10; Direct Testimonies, Exhibit CA-T-1, at 43.

[88]Partial Stipulation at 22-23.

[89]Application, Exhibit HWSC 8.16, and Exhibit HWSC-T-200, at 10.

anticipated phases, HWSC estimated a Test Year total regulatory expense of $179,000, for which it proposed a three-year amortization period, for a Test Year estimate of $59,667.[90]

In its direct testimonies, the Consumer Advocate alternatively proposed a total regulatory expense of $151,875, using HWSC's actual preparation and filing expense of $14,375, and removing the total hearings & briefing expense of $25,000, because "many of the rate proceedings for the water and wastewater utility companies have resolved all disputed issues and do not often go through the hearings or briefing phase[,]" and "an evidentiary hearing and preparation of post hearing briefs appear unlikely in this proceeding[,]"[91] which resulted in a test year expense of $30,375.[92] The Consumer Advocate also proposed a five-year amortization period because "the last rate case for HWSC Pukalani was in Docket No. 2011-0418 using a July 1, 2011 to June 30, 2012 test year, which was over 5 years ago."[93]

During settlement discussions, the Parties agreed to the Consumer Advocate's adjustment to the preparation and filing

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[90]Application, Exhibit HWSC-T-200, at 10.

[91]Direct Testimonies, Exhibit CA-T-1, at 45.

[92]Direct Testimonies, Exhibit CA-T-1, at 47.

[93]Direct Testimonies, Exhibit CA-T-1, at 46.

expense and removal of the hearings & briefing expense.[94] The Parties ultimately also stipulated to amortize regulatory expense over a four-year period, to be consistent with the agreed-to four-year revenue phase-in period, discussed further below, resulting in a Test Year regulatory expense of $37,969 ($151,875/4-year amortization period = $37,969).[95]

Given the Parties' inclusion of the actual costs incurred to present this rate case, and their ability to agree to the four-year amortization period, the commission finds reasonable the Parties' stipulated Test Year regulatory expense amount of $37,969.

2.

Non-Operations and Maintenance Expenses

HWSC's non-O&M expenses consist of the following accounts: (1) taxes other than income taxes (i.e., revenue taxes); (2) income taxes; and (3) depreciation & amortization. As discussed above, due to the Outstanding Issue regarding plant-in-service, the Parties differ in their revenue requirement. The Parties' calculation differences in non-O&M expense items (1) and (2) above,

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[94]Partial Stipulation at 23.

[95]Partial Stipulation at 23.

are due to their varying tax estimates as a result of the differences in their calculated revenue requirement.

a.

Taxes Other Than Income Taxes
(Revenue Taxes)

HWSC's taxes other than income taxes (i.e., revenue taxes), consist of the: (1) State of Hawaii, Public Service Company Tax ("PSCT"), 5.885%; and (2) State Public Utility Fee ("PUC Fee"), 0.50%.

The Parties' proposed the following Test Year estimates for revenue taxes:

	Present Rates	Proposed Rates
HWSC[96]	$71,054	$126,641
Consumer Advocate[97]	$73,054	$122,263

Based on the commission's adjudication of the Outstanding Issue, the commission finds the Consumer Advocate's test year estimates of revenue taxes at present and proposed rates reasonable.

[96]HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibit HWSC 8.20).

[97]Direct Testimonies, Exhibit CA-T-1, at CA-120.

b.

Income Taxes

The Parties' proposed the following Test Year estimates for income taxes:

	Present Rates	Proposed Rates
HWSC[98]	($108,694)	$189,623
Consumer Advocate[99]	($99,976)	$173,968

Based on the commission's adjudication of the Outstanding Issue, the commission finds the Consumer Advocate's test year income tax estimates at present and proposed rates reasonable.

c.

Depreciation and Amortization

In general, depreciation expense represents the systematic write-off of the cost of a plant's asset over the asset's depreciable life.[100]

HWSC projected Test Year depreciation expense, net of amortization of CIAC, of $317,333, and an average accumulated

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[98]HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibit HWSC 8.21).

[99]Direct Testimonies, Exhibit CA-T-1, at CA-120.

[100]In re Hawaii Water Serv. Co., Inc., Docket No. 2015-0230, Decision and Order No. 33908, filed on September 12, 2016, at 38 ("Decision and Order 33908").

depreciation balance of $2,431,757.[101] HWSC also proposed to replace its existing unit depreciation rates with group depreciation rates,[102] stating that "[t]he application of group depreciation rates allows for uniform depreciation to groups of similar property instead of performing extensive depreciation calculations on an item-by-item basis."[103] HWSC provided a depreciation study prepared by AUS Consultants in support of its proposal to use group depreciation.[104]

The Consumer Advocate did not oppose HWSC's proposal to use group depreciation rates, but recommended several adjustments to HWSC's proposal, including that:

1. Net salvage rates be set at the low end of the industry range for the depreciation study;[105]

2. Net salvage depreciation be included as a reduction to rate base;[106] and

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[101]HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibit HWSC 7.5).

[102]Application at 14.

[103]Application, Exhibit HWSC-T-100 (Revised), at 8. HWSC states that "[t]he proposal to use group depreciation is consistent with HWSC's most recent rate case for the Ka'anapali water district [(Docket No. 2015-0230)], in which the [c]ommission approved the agreement between HWSC and the Consumer Advocate to use group depreciation." Id.

[104]Application, Exhibit HWSC-T-102.

[105]Direct Testimonies, CA-T-3, at 19; see also Partial Stipulation at 26.

[106]Direct Testimonies, CA-T-3, at 20-21; see also Partial Stipulation at 26.

3. Depreciation adjustments related to its proposed changes to plant-in-service and change in allocation factors.[107]

These adjustments resulted in an annual depreciation expense of $219,222,[108] and an average accumulated depreciation balance of $1,946,133 in the Test Year.[109]

In the Partial Stipulation, the Parties agreed to HWSC's proposed use of group depreciation, and the net salvage values proposed by the Consumer Advocate.[110] The net salvage adjustment is the difference between HWSC's depreciation expense with net salvage, and without net salvage ($320,726 - $324,268 = ($3,542)).[111]

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[107]Direct Testimonies, CA-T-3, at 20-21. These adjustments resulted in a proposed $160,297 reduction in depreciation expense related to the proposed changes to plant-in-service, and a $713 reduction related to the change in allocation factors. Id.

[108]Direct Testimonies, CA-T-3 at 22 and Exhibit CA-305.

[109]Direct Testimonies, CA-T-1, Exhibit CA-103.

[110]Partial Stipulation at 27. "The net salvage adjustment represents a reduction to rate base due to the collection of net salvage through depreciation. The adjustment is calculated by taking the difference of depreciation expense with net salvage and without net salvage." Application, Exhibit HWSC-T-100 (Revised), at 9-10. In Docket No. 2015-0230, HWSC and the Consumer Advocate agreed to use group depreciation on the condition that a net salvage adjustment be included in the rate base calculation, which was approved by the commission in Decision and Order No. 33908. Decision and Order No. 33908 at 24. HWSC proposes the same net salvage adjustment in this docket. Application, Exhibit HWSC-T-100 (Revised), at 9-10.

[111]CA SOP on Outstanding Issue, Attachment 1, Exhibit A, Schedule 7, line 13.

The Parties' respective positions on the ultimate Test Year depreciation amount were set forth in their Statements of Position on the Outstanding Issue. The Consumer Advocate estimated a depreciation expense of $229,994 based on its adjustments to plant-in-service,[112] and HWSC estimated a depreciation expense of $246,926.[113]

The commission finds the Parties' stipulation to use group depreciation rates and the Consumer Advocate's net salvage adjustment reasonable. Given the commission's adjudication of the Outstanding Issue, the commission finds the Consumer Advocate's depreciation expense of $229,994 reasonable.

3.

Total Expenses

The commission, in sum, finds reasonable the total estimate of $1,233,659, in expenses at present rates, and $1,556,813 in expenses at proposed (i.e., approved) rates, as follows:

Description	Present Rates	Proposed Rates
O&M Expenses		
Labor	$479,617	$479,617
Fuel & Power	$181,542	$181,542
Chemicals	$34,586	$34,586
Materials & Supplies	$13,274	$13,274
Waste/Sludge Disposal	$37,087	$37,087
Affiliated Charges	$62,830	$62,830

[112]CA SOP on Outstanding Issue at 20.

[113]HWSC SOP on Outstanding Issue at Exhibit A, Schedule 7.5.

Description	Present Rates	Proposed Rates
Professional & Outside Services	$24,394	$24,394
Repairs & Maintenance	$94,407	$94,407
Rental	$3,969	$3,969
Insurance	$5,890	$5,890
Regulatory	$37,969	$37,969
General & Administrative	$34,141	$34,141
Miscellaneous & Other	$20,881	$20,881
Total O&M Expenses	$1,030,587	$1,030,587
Non-O&M Expenses		
Taxes, Other Than Income	$73,054	$122,263
Depreciation	$229,994	$229,994
Amortization	0	0
Income Taxes	($99,976)	$173,968
Total Non-O&M Expenses	$203,072	$526,225
Total Expenses	$1,233,659	$1,556,813

The amounts for O&M expenses reflect the Parties' stipulated amounts for all O&M expenses. The amounts for non-O&M expenses reflect applicable calculations based on: (1) the commission's application of the Parties' stipulated methodologies for calculating revenue taxes and income taxes, respectively; and (2) the commission's adjudication of the Outstanding Issue, as discussed more fully in Section E.1, below. Said methodologies for calculating revenue and income taxes at present and proposed rates, in turn, are consistent with past commission practice involving the CWSG public utility entities.[114]

[114]See In re Hawaii Water Serv. Co., Inc., Docket No. 2015-0230, Decision and Order No. 33908, filed on September 12, 2016, at 39.

E.

Average Depreciated Rate Base

HWSC's average depreciated rate base balance, as discussed in detail below, consists of its net plant-in-service (i.e., plant-in-service minus accumulated depreciation), minus net CIAC, ADIT, the HCGETC, and net salvage adjustment, plus working cash.

1.

Net Plant-in-Service

HWSC proposed a Test Year plant-in-service balance of $10,548,770,[115] while the Consumer Advocate recommended a balance of $8,919,093,[116] based on the Consumer Advocate's recommendation to: (1) remove certain construction costs of the WWTP that were not included in plant-in-service in Docket No. 2011-0148 (including the "Additional Costs"); (2) adjust downward the costs of oversizing certain WWTP components; (3) remove the costs of a WWTP access road; (4) remove costs of security camera project; (5) remove costs of radio communication project; (6) adjust various projects based on

[115]HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibit HWSC 7).

[116]Direct Testimonies, Exhibit CA-103.

project costs; and (7) use the updated four-factor allocation methodology for 2016 and 2017.[117]

The Parties were able to reach agreement on a number of elements of plant-in-service, including elimination of the Rate Impact Mitigation Factor ("RIMF") for WWTP costs,[118] exclusion of WWTP oversizing costs, and inclusion of the costs of HWSC's security camera project and radio communications project.[119]

The Parties were unable to reach agreement on inclusion of the Additional Costs (i.e., the Outstanding Issue), which is discussed in further detail, below.

a.

RIMF, WWTP Oversizing Costs, and Costs of HWSC's Security Camera Project and Radio Communications Project

i.

Background

In Docket No. 2007-0238, in which the commission approved the sale and transfer of Pukalani STP Co., Ltd.'s ("Pukalani STP") utility assets and certificate of public convenience and necessity to HWSC, HWSC entered into an agreement to acquire the Pukalani

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117Direct Testimonies, CA-T-3, at 10-16.

118HWSC SOP at Exhibit A, Schedule 7.5.

119See Partial Stipulation at 28-34.

system for the price of one dollar, and to construct a new WWTP.[120] Under the terms of the sale of the WWTP facility, Pukalani STP agreed to pay HWSC $2.8 million in CIAC ("Seller CIAC") for an additional 200,000 gpd of additional capacity for the plant (for a total of 400,000 gpd).[121] The existing Pukalani system was constructed in 1974 and was considered to be at the end of its useful life at the time HWSC acquired it.[122] HWSC determined that "restoring or upgrading the old plant was not feasible because of the old technology in use and the physical size of the site."[123]

As a result, HWSC decided to construct the new WWTP in two phases: (1) Phase 1 would "replace[] the existing plant with a new membrane bioreactor plant ("MBR"), as well as upgrade[] the two lift stations that deliver waste to the plant[,]" with a capacity of 200,000 gpd; and (2) "when additional capacity is needed . . . HWSC will then commence Phase 2, in which it will purchase and install six additional membrane cassettes, two additional ultraviolet light [] disinfection units, and two [] pumps at the

[120]Docket No. 2011-0148, "Stipulation in Lieu of Evidentiary Hearing; Exhibits A and B; and Certificate of Service," filed on December 20, 2012 ("2011-0148 Stipulation"), at 5. The commission approved the parties' Stipulation in Decision and Order No. 31810.

[121]2011-0148 Stipulation at 11.

[122]2011-0148 Stipulation at 5.

[123]2011-0148 Stipulation at 7.

plant, doubling the treatment capacity."[124] The new WWTP went into service on October 2010, when construction was substantially complete.[125]

In Docket No. 2011-0148, HWSC's last rate case docket, pursuant to a Stipulation reached in the docket that was subsequently approved by the commission, the total project cost for the new WWTP was determined to be approximately $9.598 million.[126] However, at the time, the Consumer Advocate raised questions and concerns, including whether there was a need for the MBR, cost over-runs associated with WWTP construction, and excess capacity associated with the new WWTP.[127]

In the 2011-0148 Stipulation, "HWSC recognized that, especially given [HWSC's] relatively small customer base, including the entire cost of Phase 1 [of the WWTP] in rate base in

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[124]2011-0148 Stipulation at 7.

[125]2011-0148 Stipulation at 7. Construction was complete in December 2010. Id.

[126]In the 2011-0148 Stipulation, HWSC also stated that it had discovered that all of the Phase 1 WWTP costs may not have been included in the Application, and informed the Consumer Advocate. At the time, the Parties agreed that if HWSC seeks to include such additional costs in rate base in its next rate case, the Consumer Advocate may challenge such additional costs. HWSC seeks to include those additional costs in plant-in-service in the instant rate case (i.e., the Outstanding Issue), which is discussed further in Section E.1.b, below.

[127]Direct Testimonies, CA-T-3, at 7.

this rate case would be burdensome on ratepayers. . ."[128] The Consumer Advocate had argued for an "excess capacity" adjustment to HWSC's rate base based on what it perceived as "remaining available capacity in the plant facility that is not expected to be used and useful to provide reasonable and necessary utility service in the test year."[129] The Consumer Advocate pointed out that the Company's estimate of the cost to double the WWTP's process ability was only projected to cost $433,000 in improvements, and questioned how HWSC could spend only a fraction of the costs on Phase 2 that it spent on Phase 1.[130]

As such, the Consumer Advocate recommended a 60% "capacity adjustment" to the Phase 1 costs of the WWTP, based on a comparison of the average daily inflow in gpd, with the Phase 2 average daily maximum design flow.[131] The Parties were unable to reach agreement on the issue of excess capacity because HWSC stated that it "did not believe there is excess capacity in the Phase 1 plant."[132]

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[128]2011-0148 Stipulation at 24.

[129]2011-0148 Stipulation at 18.

[130]2011-0148 Stipulation at 19.

[131]2011-0148 Stipulation at 19.

[132]2011-0148 Stipulation at 23.

As a result, "in order to resolve their differences and in order to mitigate the impact of the rate increase on ratepayers, HWSC and the Consumer Advocate agreed to reduce the Phase 1 costs of the WWTP by excluding a portion of these costs from rate base as a [RIMF]" of 35%, which had the effect of limiting the percentage rate increase for residential customers to less than 100%.[133]

ii.

RIMF

As discussed above, in response to concerns and to mitigate the impact of the rate increase in Docket No. 2011-0148, HWSC and the Consumer Advocate agreed to reduce the Phase 1 costs of the WWTP by excluding a portion of these costs from rate base as a RIMF set at 35%.[134] In the instant docket, HWSC proposed to eliminate the RIMF and include the full amount of the Phase 1 costs of the WWTP in plant-in-service, arguing that continuing to reduce HWSC's rate base by the RIMF is unreasonable.[135]

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[133]Application, Exhibit HWSC-T-100 (Revised), at 14.

[134]Application, Exhibit HWSC-T-100 (Revised), at 14-15. HWSC additionally asserts that between 2014, when rates established in Docket No. 2011-0148 went into effect, and 2016, ratepayers received a total benefit of $2,250 as a result of the RIMF. Application, Exhibit HWSC-T-100 (Revised), at 16-17.

[135]Application, Exhibit HWSC-T-100 (Revised), at 14-15; Partial Stipulation at 29. HWSC states that continuing the RIMF is

The Consumer Advocate did not object to the elimination of the RIMF in this proceeding.[136]

iii.

<u>WWTP Oversizing Costs</u>

In Docket No. 2011-0148, HWSC had provided an estimate of $619,900 for components of the WWTP that had been oversized to allow for easier expansion of the WWTP in Phase 2.[137] The Consumer Advocate recommended a reduction to HWSC's proposed plant-in-service in the amount of $619,900, stating that the oversized components "are not presently expected to be 'used and useful' and are instead intended to prepare for the future expansion of the WWTP."[138] In the Partial Stipulation, HWSC agreed with the Consumer Advocate's recommendation to exclude these "oversizing costs" from the plant-in-service balance in this rate case, and

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unreasonable because: (1) the capacity of the plant is fully used and useful; (2) customers have received a substantial benefit from the RIMF for the three year period since the last rate case; and (3) customers have also received and will continue to receive substantial benefits from the phase-in of rates; and (4) even without the RIMF, because of the proposed phase-in of rates, HWSC will not earn a reasonable return on its investment until 2021. Application, Exhibit HWSC-T-100 (Revised), at 15.

[136]Direct Testimonies, CA-T-3, at 9.

[137]Rebuttal Testimonies, HWSC-RT-100, at 16-18 (citing Docket No. 2011-0148 Stipulation, at 18).

[138]Direct Testimonies, CA-T-3, at 12.

agreed that no corresponding adjustment would be made to the Seller CIAC in the instant proceeding.[139]

The Parties agreed that "the Consumer Advocate may argue, in the next rate case or future rate cases that the oversizing costs should be temporarily excluded from rate base on the grounds that a portion of the plant constitutes 'excess capacity', that is not 'used and useful', or other grounds[,]" and that "HWSC may challenge any such [] adjustments."[140]

iv.

Security Camera Project

The Consumer Advocate initially proposed exclusion of HWSC security camera project costs from the Test Year plant-in-service, based on concerns regarding reasonableness of the estimated costs and that a delay could push the project past the

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[139]In the 2011-0148 Stipulation, the Parties agreed to apply the entire $2,800,000 in Seller CIAC to the Phase 1 WWTP costs, and in this rate case, HWSC applied the full balance of Seller CIAC when calculating its rate base. When the Consumer Advocate and HWSC were discussing treatment of the oversizing costs during settlement discussions, HWSC had argued that no oversizing adjustment should be made to the plant-in-service balance, but that if it was, that a corresponding adjustment should be made to the CIAC balance. As discussed above, the Parties ultimately agreed to exclude oversizing costs from the plant-in-service balance in this rate case, and determined not to make any downward adjustment to the Seller CIAC in this proceeding. Partial Stipulation at 32.

[140]Partial Stipulation at 32.

end of the test year.[141] HWSC provided a detailed breakdown in project costs and explained the need for the project,[142] resulting in the Parties' agreement in the Partial Stipulation to include the cost of the security camera project in plant-in-service.

v.

Radio Communication Project

The Consumer Advocate also initially proposed exclusion of $7,000 in HWSC radio communication project cost from the Test Year plant-in-service, stating that the cost may be redundant in light of radio communication equipment that was "placed into service November 1, 2015 that is shared with HWSC Kaanapali."[143] HWSC provided explanation regarding the lack of redundancy, and the need for the equipment during an emergency,[144] resulting in the Parties' agreement to include the costs of the radio communications project in Test Year plant-in-service.[145]

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[141]Direct Testimonies, CA-T-3, at 14-15.

[142]Rebuttal Testimonies, HWSC-RT-300, at 5-6, explaining the existing lack of security at the facilities.

[143]Direct Testimonies, CA-T-3, at 15.

[144]Rebuttal Testimonies, HWSC-RT-300, at 9.

[145]Partial Stipulation at 34.

vi.

Commission Determination

Given the Parties' examination of these various elements of plant-in-service, and their ability to reach agreement on them in the Partial Stipulation (i.e., elimination of the RIMF, exclusion of WWTP oversizing costs, and inclusion of the costs of HWSC's security camera project and radio communications project), the commission finds reasonable the Parties' determination regarding these costs as they relate to the Test Year plant-in-service.

b.

WWTP Additional Costs

i.

Background and Parties' Arguments

As previously discussed, HWSC seeks to include in rate base $494,000[146] in additional WWTP costs (i.e., the Additional

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[146]Rebuttal Testimonies, HWSC-RT-100, at 11-13; HWSC's Statement of Position on Outstanding Issue at 9-13. This includes $472,000 in contractor costs, the majority of which HWSC states "was coded incorrectly and as a result, [] was not included in the original project cost," $482,000 in construction overhead, ($462,000) in other costs, $3,000 in design and construction management, and ($1,000) in HWSC payroll tax and insurance, for a total of $494,000. Rebuttal Testimonies, HWSC-RT-100, at 11. Regarding the ($462,000) in other costs, "HWSC states that the difference between what HWSC is requesting in this case and the previous case includes $462,000 of construction overhead because a credit of - $462,000 was originally applied to construction overhead[,]" however "this credit was reversed in "Other Costs" at

Costs) that it states were excluded from plant-in-service in its previous rate case.[147] The disputed $494,000 in Additional Costs includes the cost to construct an access road to the WWTP.[148]

In the HWSC's Statement of Position on the Outstanding Issue, HWSC argues that it has demonstrated that the Additional Costs "are documented and were reasonable and necessary to complete Phase 1 and bring it online,"[149] and additionally, that it is reasonable to include the Additional Costs in plant-in-service because:[150]

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the same time, so the next [sic] impact on total project cost is zero." Partial Stipulation at 31 n.15.

[147]The Consumer Advocate stated that "it appears that HWSC Pukalani's cost for certain plant items of the new WWTP are now higher than what was included in the last rate case proceeding[,]" and that the Consumer Advocate had not, "to date, received information that would support such increases in costs." Direct Testimonies, CA-T-3, at 10-11.

[148]The Consumer Advocate proposed removing these access road costs, totaling $141,487, from plant-in-service, Direct Testimonies CA-T-3, at 14, and Exhibit CA-303, and sought to clarify "the extent to which any costs incurred for the WWTP Access Road Project were incurred as part of the $9.598 million in costs agreed upon in the Stipulation in Docket No. 2011-0148. . . ." Partial Stipulation at 32. HWSC disagrees with the proposed removal of these costs, Partial Stipulation at 32, stating that the cost of the access road was properly part of the $494,000 in Additional Costs, and was reasonable and necessary for construction of Phase 1 of the WWTP. HWSC SOP on Outstanding Issue at 12-13.

[149]HWSC SOP on Outstanding Issue at 13.

[150]HWSC SOP on Outstanding Issue at 13-15.

1. HWSC has agreed to a substantial reduction in plant-in-service by agreeing to exclude oversizing costs (discussed in Section E.1.a, above) without any corresponding reduction in Seller CIAC;

2. HWSC has foregone full recovery on its investment in Phase 1, resulting in "substantial subsidies to its customers," including:

   a. $1,173,000 as a result of the RIMF;

   b. $571,000 as a result of phased-in rates from the previous rate case (Docket No. 2011-0148);

   c. The proposed four-year phase-in of rates that the Parties' have agreed-upon in the instant rate case; and

   d. $88,000 in revenue per year as a result of the exclusion of oversizing costs until that portion of Phase 1 costs is placed in service.

HWSC further argues that "all of the issues relating to Phase 1 other than the Additional Costs were raised and settled in Docket No. 2011-0148[,]" including "issues [] regarding the overall increase of costs between the initial estimates and the final costs."[151]

The Consumer Advocate, citing HWSC's "history of large cost overruns" for this WWTP,[152] argues that HWSC has not provided

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[151]HWSC SOP on Outstanding Issue at 15.

[152]CA SOP on Outstanding Issue at 7. The Consumer Advocate states that the estimated cost for Phase 1 of the project at the time that HWSC first acquired the Pukalani system was $5,289,680, but after other subsequent estimates, came in at a final

sufficient justification for recovery of the Additional Costs. The Consumer Advocate states that several items put forth in support of the Additional Costs in this docket may have been part of HWSC's justification for increased Phase 1 WWTP costs in Docket No. 2011-0148, including part of a Bodell Construction Company invoice (OCO #2 Final Settlement) (hereinafter "Bodell invoice"), and paving work associated with the WWTP access road.[153] The Consumer Advocate asserts that "if HWSC is seeking recovery of the Additional WWTP Costs from ratepayers, HWSC should be able to conclusively establish how the costs invoiced were allocated across the plant in service accounts."[154]

The Consumer Advocate further argues that "HWSC's proffered explanation of the Bodell invoice is neither compelling

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construction cost of $9,598,000, due to a "number of unforeseen factors." Id. at 7-8. The Consumer Advocate states that, at the time, the Consumer Advocate had significant concerns regarding the extent of the cost overruns, resulting in the agreement with HWSC to reduce Phase 1 costs through the RIMF in Docket No. 2011-0148. Id. at 9.

[153]CA SOP on Outstanding Issue at 12. The Consumer Advocate, citing HWSC's response to CA-IR-57.c, notes that HWSC states that a $406,000 Bodell invoice was "coded incorrectly and was not included in the original project cost," and two invoices to Ovivo ("Ovivo Invoices"), HWSC's contractor for installing the MBR units, totaling $66,143, were not counted as part of the $9,598,000 in Phase 1 WWTP costs in the last rate case. Id. at 11.

[154]CA SOP on Outstanding Issue at 13 (stating that "HWSC was unable to produce any workpapers or files establishing how the invoices produced in rebuttal testimony and in response to 2011-0148 [CA IRs], map to plant in service items.")

nor complete," stating that "[i]f the invoice was improperly coded, whether at the time of Docket No. 2011-0148 or in the interval between the prior and instant rate proceeding, HWSC has not answered the question of what account (and/or company) the amount was coded to," or, in other words, the Consumer Advocate states that HWSC should have "address[ed] concerns that it might have already been reflected as part of the WWTP costs and also clarify whether another account should be reduced so that the costs are not reflected twice."[155]

The Consumer Advocate states that "[w]hether the disputed amount is compared to the initial estimate of $5.3 million, the refined estimate of $8.4 million, the stipulated amount of $9.6 million, or the total project cost of $10 million, the disputed amount is not nominal," and "absent compelling evidence that demonstrates reasonable exercise of management oversight and accounting controls to keep project costs at reasonable levels, the [c]ommission should not allow the additional costs to be recovered from customers[,]"[156] concluding that "HWSC's efforts to

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[155]CA SOP on Outstanding Issue at 14.

[156]CA SOP on Outstanding Issue at 15-17. The Consumer Advocate cites to Docket No. 2008-0083, stating that the Consumer Advocate challenged Hawaiian Electric Company, Inc.'s attempt to include the full costs associated with its Campbell Industrial Park CT-1 generating unit in rate base, where the final cost was over $60 million more than the initial estimate, and stating that HWSC's Additional Costs in this docket, "on a percentage basis, [are] much more significant[.]" Id. at 15.

seek inclusion of another $494,000 for the WWTP should be rejected."[157]

ii.

Commission Decision

HWSC's test year period is from January 1, 2017 to December 31, 2017, in accordance with HAR § 6-61-88(3)(B). HRS § 269-16(b)(3) states in relevant part that a public utility's rates "shall provide a fair return on the property of the utility used and useful for public utility purposes." As set forth in sub-issue number 1.d, above, the commission must review whether HWSC's projected rate base for the Test Year is reasonable, and whether the properties that are included in HWSC's rate base are used and useful for public utility purposes.

The commission shares the Consumer Advocate's concerns regarding the three contractor invoices (Bodell invoice and Ovivo invoices), and the attempt to include those costs in plant-in-service in the instant rate case, particularly given HWSC's failure to provide definitive evidence that the amounts covered by those invoices were not previously included as part of HWSC's Phase 1 project costs in Docket No. 2011-0148. The Consumer Advocate notes that the Bodell invoice refers to two descriptions of work:

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[157]CA SOP on Outstanding Issue at 17.

(1) Additive Bid Alt - EQ Coating ($130,600), and (2) OCO #2 Final Settlement ($275,445).[158] Citing HWSC's response to CA-IR-57.e in Docket No. 2011-0148, the Consumer Advocate states that the OCO #2 Final Settlement work "refers to payment for a number of Requests for Contract Changes[,]" that "appears to have been included as part of HWSC's explanation for the [WWTP] project's cost increase above $8.36 million" in Docket No. 2011-0148.[159] The Consumer Advocate also expresses concern that paving work associated with the WWTP access road was also included in the Bodell invoice.[160]

The commission observes that the Consumer Advocate requested information from HWSC to "establish how the costs invoiced were allocated across plant in service accounts," but that "HWSC was unable to produce any workpapers or files establishing how the invoices produced in rebuttal testimony and in response to the [CA's IRs], map to plant in service items."[161]

The Consumer Advocate further raises that

> if the [Additional Costs] w[ere] coded to some other account . . . . HWSC must first address concerns that [they] might have already been reflected as part of

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[158]CA SOP on Outstanding Issue at 12.

[159]CA SOP on Outstanding Issue at 12.

[160]CA SOP on Outstanding Issue at 12 (citing HWSC's response to CA-IR-57.e in Docket No. 2011-0148).

[161]CA SOP on Outstanding Issue at 13.

> the WWTP costs and also clarify whether another account should be reduce so that the costs are not reflected twice - once as the WWTP and another time in some unidentified project and/or account.[162]

The commission has reviewed the Bodell and Ovivo invoices, and acknowledges HWSC's statements that HWSC incorrectly coded items at issue in the Additional Costs. However, the commission notes that neither HWSC's Statement of Position on the Outstanding Issue, nor its Rebuttal Testimony, states where the applicable Additional Costs were originally assigned as a result of HWSC's incorrect coding.[163] The commission also notes that HWSC stated that "although the Parties agreed in Docket No. 2011-0148 that $9.598 [million] in Phase 1 costs were reasonable, only $9.129 [million] of those costs [] was actually included in HWSC plant in service schedules in Docket No. 2011-0148."[164]

It is not clear to the commission, after review of the entire docket record, including all testimonies and exhibits, as well as Statements of Position from the Parties specifically addressing the Outstanding Issue, whether the Bodell and Ovivo

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[162]CA SOP on Outstanding Issue at 13-14.

[163]See CA SOP on Outstanding issue at 9-13, which describes the Additional Costs in detail, but does not state where they were originally assigned; and Rebuttal Testimonies, Exhibit HWSC-RT-100 at 11-13, describing the Additional Costs, but failing to state where any incorrectly coded Additional Costs were assigned.

[164]HWSC's SOP on Outstanding Costs at 13.

contractor invoices, including the disputed access road construction costs, were not already included as part of HWSC's Phase 1 project costs in Docket No. 2011-0148, either because those invoices were previously accounted for in the $9,598,000 of final project costs in the previous rate case,[165] and/or because any costs that were incorrectly coded at that time were recovered through another account. However, even if HWSC inadvertently did not already include the Additional Costs in the $9,598,000 of approved final project costs in the previous rate case, the commission finds that it is HWSC's responsibility to ensure that its schedules, and the filings it makes with the commission, are accurate and reflect the commission's determination regarding all rate case issues (i.e., to ensure that there is not a large discrepancy between approved and filed plant-in-service schedules).

Given this, the commission finds that HWSC has not met its burden of proving that the Additional Costs are reasonable and should be included in plant-in-service in the instant rate case. As a result, the commission concludes that the Additional Costs should be excluded from HWSC's plant-in-service balance.

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[165]2011-0148 Stipulation; see also Docket No. 2011-0148, Application, Exhibit HWSC-T-300, at 10-11, and Order No. 31760 at 42.

iii.

Accumulated Depreciation

In the Application, HWSC initially proposed Test Year average accumulated depreciation of $2,431,757.[166] The Consumer Advocate proposed adjustments, for an average accumulated depreciation of $2,294,938, based on its recommendations regarding plant-in-service and net salvage values.[167]

Based on the commission's adjudication of the Outstanding Issue, the commission finds reasonable the Consumer Advocate's estimated accumulated depreciation balance of $2,294,938.

iv.

Net Plant-in-Service

Based on the commission's determination that the Additional Costs should be excluded from HWSC's plant-in-service, and the commission's subsequent finding, above, regarding accumulated depreciation, the commission finds that a net plant-in-service balance (i.e., gross plant-in-service minus accumulated depreciation) of $7,123,884 is reasonable.[168]

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[166]Application, Exhibit HWSC 7.

[167]Direct Testimonies, Exhibit CA-308.

[168]This is calculated using HWSC's revised estimated plant-in-service amount, see HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibit HWSC 7.1), adjusting for the Parties' stipulated adjustments, discussed in Section

2.

Net CIAC

In the Application, HWSC initially projected an average net CIAC balance of ($2,177,778).[169] The Consumer Advocate proposed to include an additional $136,971 in CIAC relating to land and building costs, and a CIAC addition that had been agreed to in Docket No. 2011-0148,[170] to which HWSC agreed.[171] The Parties thus stipulate to an average Test Year CIAC balance of ($2,936,971), an average net CIAC balance of ($2,281,211), and an annual CIAC amortization of ($95,675).

As such, the commission finds reasonable the Parties' stipulated average Test Year CIAC balance, average net CIAC balance, and annual CIAC amortization.

E.1.a, and removing the Additional Costs based on the commission's adjudication of the Outstanding Issue in Section E.1.b, above.

[169]Application, Exhibit HWSC 7.

[170]Direct Testimonies, Exhibit CA-T-3, at 23, and Exhibit CA-309. The Consumer Advocate states that these items "were not included in Exhibit HWSC 7.8[,]" which set forth HWSC's proposed average Test Year CIAC balance. Direct Testimonies, Exhibit CA-T-3, at 23.

[171]Rebuttal Testimonies, Exhibit HWSC-RT-100, at 25-26.

3.

Accumulated Deferred Income Taxes

HWSC proposes average ADIT in the amount of ($171,956) for Federal income taxes, and ($26,306) for State income taxes.[172] The Consumer Advocate recommended ADIT adjustments based upon its recommendations regarding plant-in-service and net salvage rates, which amounted to average balances of ($100,693) for Federal ADIT and ($13,909) for State ADIT.[173]

Based on the commission's adjudication of the Outstanding Issue, the commission finds reasonable the Consumer Advocate's estimated average balances for Federal and State ADIT, respectively.

4.

Hawaii Capital Goods Excise Tax Credit

In its Application, HWSC proposes an unamortized, average Hawaii Capital Goods Excise Tax Credit ("HCGETC") of ($223,710) for the Test Year.[174] The Consumer Advocate recommends an average HCGETC

[172]Application, Exhibit HWSC 7.

[173]CA SOP on Outstanding Issue at 21. The Consumer Advocate's ($100,693) ADIT figure for Federal income taxes is the average of the Federal ADIT balance from the beginning ($92,277) and end ($109,109) of the Test Year, and the ($13,909) ADIT figure for State income taxes is the average of the State ADIT balance from the beginning ($12,960) and end ($15,127) of the Test Year. Id.

[174]Application, Exhibit HWSC 7.

balance of ($190,649) for the Test Year based on its adjustments to plant-in-service.[175]

Based on the commission's adjudication of the Outstanding Issue, the commission finds reasonable the Consumer Advocate's average HCGETC balance of ($190,649).

5.

Working Cash

In its Application, HWSC calculated working capital in the amount of $103,670.[176] The Consumer Advocate does not object to HWSC's use of the 1/12 methodology, which calculates a working cash balance based on one month of HWSC's total Test Year O&M expenses at present rates, for establishing working cash.[177]

Based on HWSC's Test Year O&M expense amount of $1,030,587, the commission finds reasonable an average balance of $85,882 for working cash ($1,030,587/12 = $85,882).

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[175]CA SOP on Outstanding Issue at 22.

[176]HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibit HWSC 7.15).

[177]Direct Testimonies, CA-T-3, at 27. This methodology has been previously approved by the commission for establishing working cash balances in water and wastewater utility rate cases, most recently in Docket No. 2016-0229, In re Laie Water Co., Inc., Decision and Order No. 34460, filed on March 20, 2017.

6.

Average Depreciated Rate Base

The commission, in sum, finds reasonable an average depreciated rate base balance of $4,619,762, as follows:

Description	Amount
Plant-in-service	$9,418,321
Accumulated depreciation	($2,294,438)
Net plant-in-service	$7,123,884
Net CIAC	($2,281,211)
ADIT	($114,601)
HCGETC	($190,649)
Net salvage adjustment	($3,542)
Working cash	$85,882
Balance	$4,619,762

The respective balances for net plant-in-service, accumulated depreciation, ADIT, and HCGETC are a result of the commission's adjudication of the Outstanding Issue. The balances for net CIAC, net salvage adjustment, and working cash reflect the Parties' stipulated amounts.

E.

Rate of Return

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

> A fair return is the percentage rate of earnings on the rate base allowed a utility after making provision for operating expenses, depreciation, taxes and other direct operating

costs. Out of such allowance the utility must pay interest and other fixed dividends on preferred and common stock. In determining a rate of return, the Commission must protect the interests of a utility's investors so as to induce them to provide the funds needed to purchase plant and equipment, and protect the interests of the utility's consumers so that they pay no more than is reasonable.

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

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

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

Questions concerning a fair rate of return are particularly vexing as the reasonableness of rates is not determined by a fixed formula but is a fact question requiring the exercise of sound discretion by the Commission. <u>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</u>.

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

The Parties agree that a rate of return of 7.75% is fair, based on a hypothetical 47% long-term debt/53% common equity capital structure, and the following cost rates:[178]

Capital Component	Ratio	Cost Rate	Weighted Cost
Long-term Debt	47%	5.10%	2.40%
Common Equity	53%	10.10%	5.35%
	100%		7.75%

The Parties note that "[t]he requested rate of return is the same as the rate of return approved in the most recent rate cases for the Waikoloa Utilities, Kona Water Service Company, Inc., and HWSC's Kaanapali division."[179]

The commission approves as fair the Parties' stipulated rate of return of 7.75%. In support thereto, the commission specifically finds and concludes:

1. The stipulated rate of return is the same rate of return approved by the commission in rate cases for other HWSC affiliates,[180] and is the same rate of return approved by the commission in a recent 2017 test year water utility rate case.

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[178]See Application, Exhibit HWSC 10, and Partial Stipulation at 37.

[179]Application, Exhibit HWSC 10.

[180]See, e.g., Decision and Order No. 33908; see also Direct Testimonies, CA-T-1, at 14 (table of recent rates of return approved by the commission for HWSC affiliates).

2. On balance, the stipulated rate of return is within the range of reasonableness described by the Hawaii Supreme Court in In re HELCO.

F.

Test Year Revenue Requirement

Based on the commission's rulings with respect to HWSC'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 $770,687, or approximately 67.36% over revenues at present rates for HWSC, based on a Total Test Year revenue requirement of $1,914,844.

The commission's calculations of HWSC's Test Year revenue requirement are set forth in its results of operations schedules attached to this Proposed Decision and Order.

G.

Rate Design and Cost-of-Service Study

As discussed above, HWSC's existing rate design consists of: (1) a fixed monthly rate for residential customers, Pukalani Elementary School, and the Hannibal Tavares Community Center; (2) a quantity rate for commercial customers based on the customer's monthly water usage per thousand gallons ("TG"); (3) a $0.55 per TG usage charge for effluent based on the Pukalani

Country Club Golf Course's monthly effluent usage; (4) the Automatic PCAC; and (5) a service connection charge.[181]

HWSC proposes to restructure its rate design by: (1) converting Pukalani Elementary School from a fixed monthly rate to the commercial quantity rate; and (2) implementing monthly meter charges for commercial customers based on the size of the customer's meter.

HWSC, by its Application, proposes to phase in its rates over a five-year period. HWSC does not propose to phase-in any increases to the proposed monthly meter charges for commercial customers after they are implemented in year 1 of the proposed rate phase-in.[182]

HWSC also proposes to replace its existing Automatic PCAC, an annual power cost true up on customer's bills, with a PCC,[183] which would result in a monthly power cost true up to "capture fluctuations in the cost of electricity."[184] HWSC expects

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[181]See HWSC's Tariff No. 1, First Revised Exhibit B, at 1; Application, Exhibit HWSC 4, at 1. The service connection charge is a $500 deposit subject to refund. Id.

[182]Application, Exhibit HWSC-T-100 (Revised), at 30 (stating that "[t]he monthly fixed charge for commercial customers will not be phased in because the amount to be collected is small when compared to the revenue collected through volumetric rates.")

[183]Application at 12.

[184]Application, Exhibit HWSC-T-100 (Revised), at 23-24.

that "[b]ased on the power cost in the test year," PCC revenues will be approximately $193,170, but notes that they will "vary month to month depending on the power consumed and revenues that month."[185]

HWSC submitted a cost-of-service study in support of its proposed rate restructuring, and by extension, its proposed rate increases.[186]

1.

Cost-of-Service Study

With respect to cost-of-service, HWSC's consultants, Shambaugh Utility Consulting, LLC, and EXP 1, LLC, explain:

> A sewer system cost of service allocation study provides the cost information necessary to develop appropriate fixed (or customer) charges and volumetric usage charges. A cost of service allocation study is one of a number of factors that may be considered in developing a schedule of rates and charges that will produce the required revenues if actual sewer flows are equal to estimated test year flows. We have allocated the annual revenue requirement based on a cost-causative basis using wastewater flows.[187]
>
> . . . .
>
> The results of the [cost-of-service studies] can provide reasonable guidelines to be utilized in restructuring the Companies' rates and charges for service. It must be noted that seldom, if ever, are rates exactly in line with the cost of service indications at any given time. Generally minor differences will

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[185]Application, Exhibit HWSC-T-100 (Revised), at 25.

[186]See Application at 7; and Exhibit HWSC-T-103.

[187]Application, Exhibit HWSC-T-103, at 1.

exist just as a matter of normal circumstances. Cost of service allocations are the products of analyses based in part on judgment and experience and their results provide a substantial aid in the design of rates.[188]

The Consumer Advocate does not object to or recommend any adjustments or modifications to HWSC's cost-of-service study, including any adjustments to the allocations factors for each class of customers.[189] The cost-of-service study categorized customers into two classes, residential and commercial, and allocated the revenue requirement to the two customer classes at 51.58%, and 48.42%, respectively.[190] The Parties state that they "agree that the rate design proposed by HWSC in the Application is reasonable for purposes of this proceeding."[191] HWSC's proposed rate design is discussed in more detail in Section G.3, below.

2.

Power Cost Charge

As discussed above, HWSC proposes to replace its existing Automatic PCAC with a PCC. The current formula used to calculate the Automatic PCAC is:

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[188]Application, Exhibit HWSC-T-103, at 12.

[189]Partial Stipulation at 43-46.

[190]Application, Exhibit HWSC-T-100 (Revised), at 25-26.

[191]Id. at 46. HWSC's proposed rate design is set forth and discussed in detail in Application, Exhibit HWSC-T-103, at 26-30.

Percent Change =

[((Measurement Year Factor - $0.3627) x 604,991 kWh) x 1.068205] / Total Revenues

Where:

Measurement Year: The calendar year immediately preceding the calculation.

Measurement Year Factor: Electricity expense for Measurement Year / total kWh for Measurement Year.

$0.3627: Test Year cost per kWh.

604,991 kWh: Test Year kWh usage.

1.068205: Factor to account for Revenue Taxes.

Total Revenues: Total revenues for Measurement Year excluding effluent revenues.[192]

HWSC proposes a similar methodology to calculate the proposed monthly power cost factor, which would be applied to the customer's total bill to account for the previous month's power cost:

Power cost factor= [(previous month electricity cost)/(previous month revenues less effluent revenues)] x tax factor, where the tax factor is 1.06385 to account for Revenue Taxes.[193]

HWSC explains that the PCC is different from the PCCs in HWSC's other districts because those PCCs are assessed on a

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[192]Application, Exhibit HWSC 4 (Present Rate Schedule, Tariff No. 1).

[193]See Application, Exhibit HWSC-T-100 (Revised), at 24.

volumetric basis.[194] The Consumer Advocate does not object to the proposed PCC, and in the Partial Stipulation, the Parties agreed to replace HWSC's current Automatic PCAC with the PCC described above.[195]

The commission finds that the PCC will more effectively reflect fluctuations in the cost of electricity because it is adjusted monthly instead of annually, and that the methodology for calculating the proposed PCC appears to be reasonable. To be consistent with the reporting requirements associated with the PCC for other HWSC affiliates,[196] HWSC shall file a monthly Power Cost Charge Report for its Pukalani Wastewater District outlining the PCC that will be billed to customers in the following month, which shall be due by the 15th of the month during which the respective power cost charge is in effect. HWSC shall also post a monthly power cost charge report online on HWSC's website.[197]

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[194]Partial Stipulation at 41.

[195]Direct Testimonies, CA-T-2, at 16-18.

[196]See Docket No. 2011-0331, Decision and Order No. 32107 (ordering Waikoloa Resort Utilities, Inc. to file monthly Power Cost Charge Reports); and Docket No. 2015-0230, Decision and Order No. 33908 (ordering HWSC Kaanapali Division to file monthly Power Cost Charge Reports).

[197]See https://www.hawaiiwaterservice.com/rates/other-filings/.

3.

Rate Design

Based on the subject cost recovery ratios, the Parties stipulated to the following rate design, subject to the commission's approval to convert the existing Automatic PCAC to a PCC:

a.

Effluent

The cost-of-service study recommended that the effluent rate remain at its present rate of $0.55/TG, after determining that HWSC incurs little, if any costs to convey effluent to the retention pond.[198] HWSC recently entered into a new agreement with the Pukalani Country Club Golf Course "under which the golf course is not required to take a minimum amount of effluent," so "HWSC therefore believes that it is important that the price for effluent be low enough so that the golf course continues to take the effluent rather than use the water from the golf course's well."[199] For these reasons, the Parties agreed that it was reasonable to leave the effluent rate as-is.

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[198]Application, Exhibit HWSC-T-102, at 12; Partial Stipulation at 45-46.

[199]Application, Exhibit HWSC-T-100, at 26; Partial Stipulation at 46.

Based on the record, the commission finds that it is reasonable for HWSC's effluent rate to remain at $0.55/TG.

b.

Public Authority

HWSC analyzed two rate designs for its existing public authority customers, Pukalani Elementary School and Hannibal Tavares Community Center: (1) continue charging a fixed rate; or (2) bill the public authority customers at the commercial rate.[200] HWSC first calculated rates for its public authority customers by applying the existing rate design to the proposed revenue increase, which resulted in a monthly bill of $1,618.70 for Pukalani Elementary School and $367.89 for the Community Center.[201] HWSC then estimated the monthly bill for customers using the proposed commercial rate, which resulted in an average monthly bill of

[200]Application, Exhibit HWSC-T-100 (Revised), at 27; Partial Stipulation at 44.

[201]Application, Exhibit HWSC-T-100 (Revised), at 27; Partial Stipulation at 45. At present rates, Pukalani Elementary School was being charged a flat monthly rate of $758.16 per month, and Hannibal Tavares Community Center was being charged a flat monthly rate of $172.31. HWSC's response to CA-IR-1, and Attachment CA-IR-1 thereto (Revised Exhibit HWSC 8.2); Application, HWSC Exhibit 4; Partial Stipulation at 8.

$1,510 for Pukalani Elementary School, and $11,018 for the Community Center.[202]

Based on the outcome of these analyses, HWSC determined that the Elementary School should be billed using the commercial rate design, and the Community Center should be billed using the existing rate design.[203] The Consumer Advocate expressed concerns about the potential for subsidization if the Community Center remains on a fixed rate, but did not propose any amendment to the public authority rates.[204]

Based on the analysis in the record regarding the rate design options for these two public authority customers, the commission finds reasonable the Parties' stipulated rate design, as described above.

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[202]Application, Exhibit HWSC-T-100 (Revised), at 27; Partial Stipulation at 45.

[203]Application, Exhibit HWSC-T-100 (Revised), at 27; Partial Stipulation at 45. The flat monthly rate for the Community Center under the existing rate design is $288 ($172.31 (present monthly rate) x 67% = $288 (rounded)). CA SOP on Outstanding Issue, Attachment 1, at 3, line 8.

[204]Direct Testimony, CA-T-1 at 60-61; Partial Stipulation at 45.

c.

Residential

HWSC proposes to keep its existing rate design for its residential customers, and calculates the proposed residential fixed rate for customers by establishing the revenue to be collected from that customer class, and multiplying that by the residential allocation factor recommended in the cost-of-service study (51.58%), to get the total amount of residential revenue. ($1,698,168[205] x 51.58% = $875,916). That residential revenue is then divided by the total number of residential customers in the test year, and divided by 12, to determine the monthly residential rate.

The Consumer Advocate expressed concerns that HWSC has not incorporated any volumetric rate for its residential customers into its rate design, despite the commission's recommendation in Docket No. 2011-0148, but HWSC states that it cannot obtain residential metered water use data reliably, which makes incorporating a volumetric rate difficult.[206] HWSC explains that the County will not provide HWSC with the County's water meter readings on a regular basis, and HWSC does not believe that it can

[205]This was derived by taking the total revenue requirement ($1,914,844), and subtracting out PCC revenue ($177,669), effluent revenue ($35,546), and public authority revenue ($3,461).

[206]Partial Stipulation at 42.

cost-effectively read its customers' meters.[207] Ultimately, the Consumer Advocate states that "it [] recognized the difficulties and costs that would be incurred to obtain comprehensive water or wastewater flow data for residential customers in the Pukalani Service area," and as a result, "did not object to the continued use of a fixed rate for residential customers and did not propose a different allocation of the revenue requirement between residential and commercial customers."[208]

Based on HWSC's methodology of dividing the total amount of residential revenue by the number of residential customers in the test year, the resulting fixed monthly charge for customers is: $79/month ($875,915/923 residential customers = $949 per customer, $949/12 months = $79/month).

Based on the foregoing, the commission finds the proposed rate design for HWSC's residential customers to be reasonable.

d.

Commercial

HWSC proposes to maintain its existing rate design for commercial customer volumetric rates, and to also add a new fixed monthly rate for its commercial customers. HWSC's existing

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[207]Partial Stipulation at 42.

[208]Partial Stipulation at 43.

volumetric rate is "based on the billed water usage data from the County of Maui water bills obtained directly from commercial customers."[209]

HWSC first established the revenue to be collected from its commercial customer class, and multiplied that by the commercial allocation factor recommended in the cost-of-service study (48.42%), to get the total amount of commercial revenue. ($1,698,168[210] x 48.42% = $822,253).

HWSC then calculated the fixed revenue to be collected from its commercial customers using the commercial customer amount determined in the cost-of-service study, $13,348.[211] It then applied an "equivalent residential unit factor," used by HWSC's affiliate, WHSC, for commercial customers, which determined that HWSC's 13 commercial customers were equivalent to 69 residential units.[212] The monthly commercial unit cost was then derived by dividing the fixed amount of revenue to be collected from

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[209]Partial Stipulation at 44.

[210]This was derived by taking the total revenue requirement ($1,914,844), and subtracting out PCC revenue ($177,669), effluent revenue ($35,546), and public authority revenue ($3,461).

[211]Application, Exhibit HWSC-T-100 (Revised), at 29, and Exhibit HWSC-T-103 at 11.

[212]Application, Exhibit HWSC-T-100 (Revised), at 29.

commercial customers, by the number of equivalent residential units, as follows:

Monthly commercial unit cost = $13,348/69 units = $193.45/12 months = $16.12

Following the calculation of the monthly commercial unit cost, HWSC multiplied that cost by the number of equivalent residential units for a given meter size, to determine the monthly fixed cost by meter size.[213] The resulting fixed monthly commercial meter charges by meter size are as follows:

Meter Size	Meter Count	Equivalent Residential Unit Factor	Equivalent Residential Units	Monthly Fixed Charge ($)	Present Revenue	Proposed Annual Revenue ($)
5/8"	2	1	2	16.12	-	386.90
3/4"	0	1	0	16.12	-	-
1"	4	2	8	32.24	-	1,547.59
1-1/2"	5	3	15	48.36	-	2,901.74
2"	2	5	10	80.60	-	1,934.49
3"	1	17	17	274.05	-	3,288.64
4"	0	17	0	274.05	-	-
6"	1	17	17	274.05	-	3,288.64
Total	**15**		**69**		-	**$13,348**

HWSC then calculated its volumetric charge revenue by subtracting the fixed revenue from the total commercial customer revenue allocation ($822,253 - $13,348 = $808,905).[214]

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[213]Application, Exhibit HWSC 12, lines 19-30; CA SOP on Outstanding Issue, Exhibit A, Schedule 12, at lines 19-30.

[214]Application, Exhibit HWSC-T-100 (Revised), at 29.

The Consumer Advocate raised a concern about HWSC's estimate of wastewater flows for its commercial customers based on a 20% discrepancy between actual and estimated wastewater flows, but it ultimately stated that it "is not aware of additional data that would support a different ratio of residential versus commercial usage for the purposes of the [cost-of-service study]."[215] The Consumer Advocate thus "did not object to the implementation of a fixed charge for commercial customers, and did not propose a different allocation of the revenue requirement between residential and commercial customers."[216]

Based on its review of the record, including HWSC's cost-of-service study, the commission finds reasonable HWSC's proposed rate design for commercial customers.

3.

Phase-In Period

HWSC initially proposed a five-year phase-in period, because its "proposed revenue increase is greater than 100%," and HWSC "recognizes the burden this places on customers."[217] This included a 25% year 1 phase-in, with an incremental increase in

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[215]Partial Stipulation at 44.

[216]Partial Stipulation at 44.

[217]Application at 8, and Exhibit HWSC-T-103, at 22.

years 2-4 equal to the year 1 amount, and in year 5 the phase-in would be the difference between the originally requested increase and the increases implemented over the previous four years.[218] The Consumer Advocate recommended that the increase be phased in over three years, stating that "increases should be phased in such that each phased increase is no greater than 25% or around that level."[219]

In the Partial Stipulation, the Parties agreed to phase-in rates over four years, although they did not stipulate to the revenue increase or percentage increase for each year of the phase-in period.[220] In their respective position statements on the Outstanding Issue, each Party evenly distributed the dollar amount of the total revenue increase over the four-year phase-in period.

The commission finds this methodology to be reasonable, and approves a phase-in of the revenue increase in equal amounts over four years. HWSC does not plan to phase-in any increases to the proposed monthly meter charges for commercial customers after they are implemented in year 1 of the proposed rate phase-in.[221]

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[218]Application, Exhibit HWSC-T-103, at 22-23, and HWSC Exhibit 11.

[219]Direct Testimonies, CA-T-1, at 62.

[220]Partial Stipulation at 46.

[221]Application, HWSC-T-100 (Revised), at 30. HWSC states that "the monthly fixed charge for commercial customers will not be

Based on this phase-in schedule, the recommended revenue increase per year is $192,672 ($770,687/4-year phase-in period = $192,672), and the overall annual percentage increases for years 1 through 4 are 17%, 14%, 13%, and 11%, respectively.[222]

H.

Proposed Tariff Revisions

1.

CIAC Tariff Provisions

HWSC proposes the following changes to the CIAC section of its Tariff No. 1 (Rule XIV):

1. Replace the existing formula for determining the amount of CIAC to be collected from applicants with a new formula, under which the estimated cost per gallon would be no lower than the average cost per gallon of the most recent two phases of plant capacity;[223]

2. Revise the tariff to provide that if HWSC collects a greater amount of CIAC than the total cost of all constructed phases of the WWTP (an "over-collection"), then for the purpose of calculating the CIAC to be paid by an applicant served by the next capacity addition, the cost of the next capacity

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phased in because the amount collected is small when compared to the revenue collected through volumetric rates." Id.

[222]CA SOP on Outstanding Issue, Attachment 1, at 2.

[223]The Consumer Advocate proposed instead that "the cost per gallon be 'in no event less than the average cost per gallon of total plant capacity[,]'" Direct Testimonies, CA-T-2, at 20-22, to which HWSC agreed. Rebuttal Testimonies, HWSC-RT-100, at 28.

addition would be reduced by the net unamortized over-collection;[224]

3. Include a true-up procedure between an applicant and HWSC in cases where the CIAC payment is based on estimated construction costs;

4. Revise the tariff to give HWSC the discretion to allow an applicant to install and construct facilities required for service in lieu of paying CIAC;[225]

5. Add details regarding the timing and procedure for payment of CIAC;[226]

6. Implement a time limit of one year, during which the applicant must complete construction of the project for which service was requested;[227]

7. Include grandfather provisions for agreements entered into prior to the commission's approval of the proposed tariff changes.[228]

The Parties stipulate that HWSC's CIAC tariff rules should be revised as set forth above, and in Exhibit HWSC-T-104.

The commission finds reasonable the Parties' proposed changes to the CIAC section of HWSC's Tariff No. 1 (Rule XIV).

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[224]Application, Exhibit HWSC-T-100 (Revised), at 19.

[225]Application, Exhibit HWSC-T-100 (Revised), at 20.

[226]Application, Exhibit HWSC-T-100 (Revised), at 20-21. This sets forth a process to be used for agreements to serve new developments.

[227]Application, Exhibit HWSC-T-100 (Revised), at 21.

[228]Application, Exhibit HWSC-T-100 (Revised), at 19.

2.

System Extension Rules

HWSC proposed a new Tariff No. 1 Rule XV, which provides for payment by an applicant for extensions of sewer mains or other facilities that are required to provide service to the applicant through refundable or non-refundable contributions.[229] This rule is similar to other rules that have been approved for HWSC's affiliates.[230] The Consumer Advocate did not object to HWSC's proposed System Extensions rules, and the Parties' stipulated to the applicable revisions proposed in Exhibit HWSC-T-104.[231]

The commission finds reasonable the addition of the System Extension rules to HWSC's Tariff No. 1 (Rule XV).

3.

Removal of Service Application

HWSC proposed to remove the Application for Sewage Disposal Service form that is presently attached as Exhibit C to HWSC's Tariff No. 1, because it was "created and used by the prior owner of the Pukalani wastewater system, and [] HWSC would like the

[229]Application, Exhibit HWSC-T-104, Tariff No. 1, Original Sheet 38, Rule XV ("System Extensions").

[230]Application, Exhibit HWSC-T-100 (Revised), at 22.

[231]Partial Stipulation at 39.

flexibility to create and utilize a more modern form of application, and to revise the form as necessary[,]" stating that the commission recently approved requests in other proceedings involving HWSC's affiliates to remove the application form from their tariffs.[232] The Consumer Advocate did not object to removal of the form for Application for Sewage Disposal Service,[233] and the Parties stipulated to the applicable revisions proposed in Exhibit HWSC-T-104.[234]

For the reasons set forth above, the commission finds reasonable the removal of the Application for Sewage Disposal Service form that is presently attached as Exhibit C to HWSC's Tariff No. 1.

I.

Commission Action

The commission's approved increase in revenues of $770,687, or approximately 67.36% over revenues at present rates, provides HWSC with the opportunity to recover its normalized, reasonable utility expenses and to earn a fair return on its average depreciated rate base, consistent with the ratepayers' attendant

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[232]Partial Stipulation at 39.

[233]Direct Testimonies, CA-T-2, at 24.

[234]Partial Stipulation at 40.

benefits of continuing to receive wastewater collection and treatment utility service at just and reasonable rates.

Consistent with the terms of this Proposed Decision and Order, the commission: (1) approves the Parties' Partial Stipulation; and (2) adjudicates the Outstanding Issue. That said, the commission's approval of the Partial Stipulation or any of the methodologies used by the Parties in reaching an agreement, may not be cited as precedent by any parties in any future commission proceeding.

III.

SUMMARY OF FINDINGS AND CONCLUSIONS

The commission ultimately finds and concludes:

1. HWSC's Test Year revenues, expenses and average depreciated rate base balance, as set forth in the attached results of operation schedules, are reasonable.

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

3. HWSC is entitled to an increase of $770,687, or approximately 67.36% over revenues at present rates, based on total Test Year revenue requirement of $1,914,844, and a rate of return of 7.75%.

IV.

ACCEPTANCE OR NON-ACCEPTANCE

Consistent with HRS § 269-16(f)(3), within ten days from the date of this Proposed Decision and Order, each of the Parties shall notify the commission as to whether it:[235]

1. Accepts in toto, the Proposed Decision and Order. If the Parties accept the Proposed Decision and Order, they "shall not be entitled to a contested case hearing, and [HRS] section 269-15.5 shall not apply."

2. Does not accept, in whole or in part, the Proposed Decision and Order. If so, said party shall give notice of its objection or non-acceptance and set forth the basis for its objection or non-acceptance. Moreover, the party's objection or non-acceptance shall be based on the evidence and information contained in the current docket record, i.e., the materials available to the commission at the time of its issuance of the Proposed Decision and Order.

Any party that does not accept the Proposed Decision and Order "shall be entitled to a contested case hearing; provided that the parties to the proceeding may waive the contested case hearing."

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

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

V.

ORDERS

THE COMMISSION ORDERS:

1. The Parties' Partial Stipulation, filed on July 21, 2017, is approved, consistent with the terms of this Proposed Decision and Order. The commission's approval of the Partial Stipulation or any of the methodologies used by the Parties in reaching an agreement, may not be cited as precedent by any parties in any future commission proceeding.

2. HWSC may increase its water utility charges to produce a total annual revenue increase of $770,687, or approximately 67.36% over revenues at present rates, as reflected in the attached results of operation schedules, representing an increase in HWSC's total Test Year revenue requirement to $1,914,844.

3. HWSC shall promptly file its revised tariff sheets for the commission's review and approval, consistent with the terms of this Proposed Decision and Order. For ease of reference, HWSC shall file its revised tariff sheets in black-lined and clean formats.

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

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

6. The failure to comply with any of the requirements set forth in Ordering Paragraph Nos. 3 or 5, above, may constitute cause to void this Proposed Decision and Order, and may result in further regulatory action as authorized by State of Hawaii law.

DONE at Honolulu, Hawaii SEP 15 2017.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By ______________________
Randall Y. Iwase, Chair

By ______________________
Lorraine H. Akiba, Commissioner

By ______________________
James P. Griffin, Commissioner

APPROVED AS TO FORM:

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Caroline C. Ishida
Commission Counsel

2015-0236.ncm

CERTIFICATE OF SERVICE

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

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