

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
)
HAWAII WATER SERVICE COMPANY, INC.) DOCKET NO. 2022-0186
)
For Approval of a General Rate)
Increase For Its Pukalani Wastewater)
Division and Certain Tariff Changes.)
)

FINAL DECISION AND ORDER NO. 40344

TABLE OF CONTENTS

I. BACKGROUND 3

 A. Hawaii Water..... 3

 B. Application..... 6

 C. Public Hearing..... 8

 D. Procedural History..... 9

II. STATEMENT OF ISSUES 14

III. DISCUSSION 14

 A. Timing of Decision and Order..... 14

 B. Settlement Stipulation..... 18

 1. Terms and Conditions..... 18

 2. Summary..... 21

 C. Operating Revenues..... 22

 1. Residential..... 22

 2. Commercial and Public Authority..... 23

 3. Billed Sewer Flows and Effluent Rates..... 25

 4. Power Cost Charge..... 27

 5. Other Revenues..... 29

 D. Operating Expenses..... 32

 1. General Methodology and Inflation Adjustment..... 32

 2. Labor..... 35

 i. Payroll..... 36

 ii. Employee Benefits..... 37

 iii. Payroll Taxes..... 39

 iv. Total Labor Expense..... 40

 3. Fuel & Power..... 40

 4. Chemicals..... 42

 5. Materials and Supplies..... 43

 6. Water/Sludge Disposal..... 45

 7. Affiliated Charges..... 46

 8. Professional & Outside Services..... 48

 9. Repairs & Maintenance..... 49

10. Rent.....	51
11. Insurance.....	52
12. Regulatory.....	53
13. General & Administrative.....	55
14. Customer Accounts.....	56
15. Taxes Other Than Income Tax.....	58
16. Depreciation.....	60
17. Income Taxes.....	63
E. Rate Base.....	65
1. Plant in Service.....	65
2. Accumulated Depreciation.....	68
3. Accumulated Deferred Income Taxes.....	70
4. Unamortized Hawaii Capital Goods Excise Tax Credit.....	72
5. Contribution in Aid of Construction.....	74
6. Working Cash.....	75
7. Net Salvage Adjustment.....	77
F. Rate of Return.....	79
G. Phase-in Period.....	82
H. Rate Design.....	84
I. Proposed Tariff Revisions.....	87
1. TCJA Surcredit.....	88
2. COVID Surcharge.....	89
3. Definition of Customer and Company Sewage System.....	92
J. Commission Approval.....	96
IV. SUMMARY OF FINDINGS AND CONCLUSIONS	97
V. ORDERS	99

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FINAL DECISION AND ORDER

By this final Decision and Order ("Decision & Order"), the Public Utilities Commission ("Commission"), pursuant to HRS § 269-16(d), approves: (1) an increase of \$493,180, or approximately 34.0% over revenues at present rates, for HAWAII WATER SERVICE COMPANY, INC. Pukalani Wastewater Division's ("Hawaii Water" or "Applicant") wastewater service, based on a total revenue requirement of \$1,942,976 for the January 1, 2023 through December 31, 2023 test year ("2023 Test Year" or "Test Year").¹ In doing so, the Commission partially approves the Settlement Agreement Letter filed jointly

¹The Parties are Hawaii Water and the DIVISION OF CONSUMER ADVOCACY OF THE DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate"), an ex officio party, pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 16-601-62(a). No persons moved to intervene or participate in this proceeding.

by Hawaii Water and the Consumer Advocate on September 22, 2023 (“Stipulation”).² As discussed herein, the Commission observes that the revenue category of “Other Revenues” is not sufficiently addressed in the record; however, as this amount is not factored into Hawaii Water’s Test Year or the stipulated rate increase, the Commission does not find this discrepancy material. As a result, the Commission adopts the Parties’ Stipulation, but modifies the accompanying schedule of operations to remove “Other revenues” to avoid confusion (see Exhibit A).

This Decision & Order also approves the Stipulation by: (1) authorizing Hawaii Water to increase the rates and charges assessed to its various customer classes; (2) authorizing Hawaii Water to implement a modified rate design that includes, among other things, a two-step phase-in with rate changes every twelve months where the first year increase is \$246,590, or 17.01%, over current rates, and the second year increase is an additional \$246,590, or 14.54%, over the first-year rates; and (3) authorizing various changes to Hawaii Water’s Pukalani Wastewater District tariff (“Tariff No. 1”) as described herein.

²Letter From: D. Nakashima To: Commission Re: Docket No. 2022-0186 - In re Application of Hawaii Water Service Company, Inc. for Approval of a General Rate Increase for its Pukalani Wastewater Division and Certain Tariff Changes - Settlement Agreement Letter, filed on September 22, 2023.

I.

BACKGROUND

A.

Hawaii Water

Hawaii Water is a Hawaii limited liability company with its business offices at 68-1845 Waikoloa Rd., Unit 216, Waikoloa, Hawaii 96738, and its legal offices at 1720 North First Street, San Jose, California 95112. Hawaii Water is a public utility that holds a certificate of public convenience and necessity ("CPCN") to provide wastewater collection and treatment services in Pukalani, Maui.³

As of the date of Hawaii Water's Application,⁴ Hawaii Water's current Pukalani service territory includes approximately 1,009 residential and commercial customers, located on the lower slopes of Haleakala. Hawaii Water's Pukalani residential customer base consists of single-family dwellings and multi-family dwellings. There are approximately 784 single family

³Pursuant to the Decision and Order filed on June 12, 2008 in Docket No. 2007-0238, the Commission approved the transfer of Pukalani STP., Ltd.'s ("Pukalani STP") CPCN to Hawaii Water. The Commission also approved financing arrangements for the replacement of Pukalani STP's wastewater treatment plant in order to accommodate the planned growth in the service area and to provide existing customers with reliable service.

⁴"Application; Exhibits HWSC 1 through HWSC 14; Exhibit HWSC-T-100 through HWSC-T-301; Confidentiality Log; Verification; and Certificate of Service," filed on December 30, 2022 ("Application").

customers and three multi-family customers consisting of approximately 207 units. Hawaii Water's 18 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.

Hawaii Water's Pukalani system includes a network of sewer and force mains, including two sewage pump stations, to collect the wastewater, and a wastewater treatment plant (the "WWTP"). The WWTP produces R-1 quality effluent. The treated effluent is discharged into a two-million-gallon pond. The effluent is then pumped to the adjacent Pukalani Country Club Golf Course for irrigation use. Hawaii Water is not proposing to increase its effluent rate in this proceeding.

Applicant also holds a CPCN to provide water service in Ka'anapali, Maui,⁵ a CPCN to provide potable and non-potable water service and wastewater collection service in Kapalua, Maui,⁶ and a CPCN to provide wastewater service in the Keauhou area of North Kona, Hawaii.⁷ Hawaii Water owns all the stock of

⁵See Docket No. 3700, Decision and Order No. 6230, filed June 9, 1980.

⁶See Docket No. 2020-0086, Decision and Order No. 37665, filed on March 8, 2021.

⁷See Docket No. 2021-0160, Decision and Order No. 38648, filed on October 11, 2022.

Waikoloa Water Company, Inc., dba West Hawaii Water Company, Waikoloa Sanitary Sewer Company, Inc., dba West Hawaii Sewer Company, and Waikoloa Resort Utilities, Inc., dba West Hawaii Utility Company, which provide water and wastewater services in the Waikoloa Village and Waikoloa Beach Resort areas in South Kohala on the island of Hawaii.⁸

Hawaii Water also owns Kona Water Service Company, Inc., which provides water and wastewater services to certain areas in Kona on the island of Hawaii, and Kalaeloa Water Company, LLC, which provides water and wastewater services in Kalaeloa on the island of Oahu.⁹ Further, on June 24, 2022, the Commission approved, subject to certain conditions, the sale and transfer of HOH Utilities, LLC's wastewater utility assets in Poipu, Kauai to Hawaii Water.¹⁰ Hawaii Water is also in the process of acquiring Kukui`ula South Shore Community Services, LLC's wastewater utility assets in Kukui`ula, Poipu, Koloa, Kauai in Docket No. 2022-0257.

Applicant is a wholly-owned subsidiary of California Water Service Group ("CWSG"), a holding company incorporated in

⁸See Docket No. 2008-0018, Decision and Order, filed on August 20, 2008, at 25-27.

⁹See Docket No. 2008-0109, Decision and Order, filed on December 1, 2008, at 24-27; Docket No. 2019-0144, Decision and Order No. 37325, filed on September 2, 2020, at 39.

¹⁰See Docket No. 2021-0147, Decision and Order No. 38447, filed on June 24, 2022, at 54-55.

Delaware which is traded on the New York Stock Exchange under the symbol "CWT." Besides Hawaii Water, CWSG's operating subsidiaries include California Water Service Company (water and wastewater service), New Mexico Water Service Company (water and wastewater services), Texas Water Service Company (wastewater service), Washington Water Service Company (water and wastewater services), and CWS Utility Services, a non-regulated subsidiary, and HWS Utility Services LLC, a nonregulated subsidiary. CWSG is a public company traded on the New York Stock Exchange under the symbol "CWT." CWSG's audited financial statements are available on the Security and Exchange Commission's website.

B.

Application

On December 30, 2022, Hawaii Water filed its Application in the subject docket requesting Commission review and approval of a general rate increase, revised rate schedules, and changes to its tariff, pursuant to HRS § 269-16(f).¹¹ By its Application, Hawaii Water requests Commission approval of a net increase in revenue of \$573,245 (an approximate 39.53% increase from pro forma revenue amount of \$1,449,970 at present rates), based on a

¹¹See Application.

2023 Test Year.¹² Hawaii Water proposes to implement this increase over two years to mitigate or reduce any potential “rate shock” to its customers.¹³

Hawaii Water’s present and proposed rate schedules are as follows:

Monthly Sewer Fees	Present Rates	Proposed Rate Phase-in			
		Year 1		Year 2	
Residential	\$ 79.08	\$ 90.73	14.7%	\$ 102.76	13.3%
Commercial					
Fixed Charge by meter size					
5/8"	\$ 16.12	\$ 19.34	20.0%	\$ 22.49	16.3%
3/4"	\$ 16.12	\$ 19.34	20.0%	\$ 22.49	16.3%
1"	\$ 32.24	\$ 38.69	20.0%	\$ 44.99	16.3%
1 1/2"	\$ 48.36	\$ 58.03	20.0%	\$ 67.48	16.3%
2"	\$ 80.60	\$ 96.72	20.0%	\$ 112.47	16.3%
3"	\$ 274.05	\$ 328.85	20.0%	\$ 382.38	16.3%
4"	\$ 274.05	\$ 328.85	20.0%	\$ 382.38	16.3%
6"	\$ 274.05	\$ 328.85	20.0%	\$ 382.38	16.3%
Quantity Rate	\$ 15.2574	\$22.8418	49.7%	\$29.8497	30.7%
Public Authority					
Government/Education	Same as Commercial				
Government/Recreation	\$ 288.38	\$ 346.06	20.0%	\$ 402.39	16.3%
Effluent	\$ 0.55	\$ 0.55	0.0%	\$ 0.55	0.0%

As part of its Application, Hawaii Water also requests that the Commission approve proposed revisions to its Tariff by, among other things, (1) imposing a surcredit to refund the 2018-2023 income tax expense over-collection as a result of the Tax Cuts and Jobs Act of 2017 (“TCJA Surcredit”) over a

¹²See Application, Exhibit HWSC 6.

¹³See Application, Exhibit HWSC 11; Exhibit HWSC-T-100 at 16.

72-month period; and (2) impose a surcharge to collect deferred Coronavirus Disease 2019 (“COVID”) expenses over a 12-month period (“COVID Surcharge”).¹⁴

C.

Public Hearing

The Commission’s Notice of Public Hearing was published in accordance with HRS §§ 269-12(c) and 269-16.¹⁵ On July 10, 2023, the Commission held an in-person public hearing on the relief requested by Hawaii Water at the Pukalani Elementary School Cafeteria, in accordance with HRS § 269-16(f). Hawaii Water’s representative, the Consumer Advocate, and members from the public appeared and testified.¹⁶

¹⁴See Application at 13; Exhibit HWSC-T-100 at 15-16.

¹⁵The Commission’s Notice of Public Hearing was published on June 19 and 26 and July 3 and 10, 2023 in The Maui News. See Affidavit of Publication (MN), filed on September 7, 2023.

¹⁶See Public Hearing Sign-Up Sheet and Written Testimonies, filed on July 14, 2023. The comments from members of the public included testimony expressing concerns with Hawaii Water’s requested rate increase.

D.

Procedural History

On September 12, 2022, Hawaii Water filed a Notice of Intent to file an application for a general rate increase pursuant to HAR § 16-601-85.¹⁷

On November 9, 2022, Hawaii Water filed a motion for protective order.¹⁸

On December 30, 2022, Hawaii Water filed its Application.

On January 19, 2023, the Consumer Advocate filed its Statement of Position Regarding Completeness of Application.¹⁹

On February 9, 2023, in response to Hawaii Water's Motion for Protective Order, the Commission issued Protective Order No. 38852 to govern the submission of confidential information that may be requested and/or produced in the subject docket.²⁰

¹⁷Notice of Intent; Verification of Greg Milleman; and Certificate of Service," filed on September 12, 2022.

¹⁸"Hawaii Water Service Company, Inc.'s Motion for Protective Order; and Certificate of Service," filed on November 9, 2022.

¹⁹"Division of Consumer Advocacy's Statement of Position Regarding Completeness of Application," filed on January 19, 2023.

²⁰Protective Order No. 38852, filed on February 9, 2023 ("Protective Order No. 38852").

On February 15, 2023, Applicant submitted certain confidential information contained in the Application filed on December 30, 2022, pursuant to Protective Order No. 38852.²¹

On March 20, 2023, the Commission issued Order No. 39072 which found that Hawaii Water's Application was complete and properly filed pursuant to HRS § 269-16(f) and HAR § 16-601-88, with a completed Application filing date of December 30, 2022.²² The Commission also approved Hawaii Water's waiver request to file unaudited financial statements in lieu of audited financial statements as required under HAR § 16-601-75.²³

On March 28, 2023, the Parties filed a Stipulated Procedural Order setting forth a proposed statement of issues and procedural schedule to govern the proceeding.²⁴

On April 27, 2023, the Consumer Advocate submitted information requests ("IRs") to Hawaii Water pursuant to the

²¹Letter From: D. Nakashima To: Commission Re: Docket No. 2022-0186 - In re Application of Hawaii Water Service Company, Inc. for Approval of Generate Rate Increase for its Pukalani Wastewater Division - Submission of Confidential Portions of Application, Filed on December 30, 2022, filed on February 15, 2023.

²²Order No. 39072, "Regarding Completed Application and Other Initial Matters," filed on March 20, 2023 ("Order No. 39072").

²³Order No. 39072 at 11-13.

²⁴"Stipulated Procedural Order; Exhibit A; and Certificate of Service," filed on March 28, 2023.

proposed schedule in the Stipulated Procedural Order.²⁵

On May 22, 2023, Hawaii Water submitted partial responses to the Consumer Advocate's IRs.²⁶ On June 5, 2023, Hawaii Water submitted supplemental responses to the Consumer Advocates First Submission of Information Requests.²⁷

On June 14, 2023, the Commission issued Order No. 39370, which approved the Parties' Stipulated Procedural Order with certain amendments.²⁸

On June 23, 2023, the Consumer Advocate filed a motion seeking to modify the procedural schedule to extend the deadline for it to submit its Direct Testimonies and Exhibits and to allow the Consumer Advocate to submit Supplemental Direct Testimonies

²⁵Copy Letter From: Consumer Advocate To: J. Ono Re: Docket No. 2022-0186 - Hawaii Water Service Company, Inc. - Pukalani Wastewater Division; Division of Consumer Advocacy's First Submission of Information Requests, filed on April 27, 2023.

²⁶"Hawaii Water Service Company, Inc.'s Partial Response to the Division of Consumer Advocacy's First Submission of Information Requests; Confidentiality Log; and Certificate of Service," Parts 1-3, filed on May 22, 2023 ("Hawaii Water Response to CA-IR-__").

²⁷"Hawaii Water Company, Inc.'s Supplemental Response to the Division of Consumer Advocacy's First Submission of Information Requests (re: CA-IR-42 and CA-IR-47); and Certificate of Service," filed on May 22, 2023 ("Hawaii Water Supplemental Response to CA-IR-__").

²⁸Order No. 39370, "Approving, as Amended, the Parties' Stipulated Procedural Order," filed on June 14, 2023 ("Order No. 39370"). See also Order No. 40028, "Errata to Order No. 39370," filed on June 22, 2023.

and Exhibits to allow it to incorporate public comments from the public hearing scheduled for July 10, 2023.²⁹

As noted above, on July 10, 2023, the Commission held a public hearing on Hawaii Water's Application at the Pukalani Elementary School Cafeteria.

On July 12, 2023, the Consumer Advocate filed its Direct Testimonies and Exhibits.³⁰

On July 18, 2023, the Commission issued Order No. 40103, which granted the Consumer Advocate's Motion for Modification.³¹ In doing so, the Commission also modified the remaining deadlines in the procedural schedule.³²

On July 24, 2023, the Consumer Advocate filed its Supplemental Direct Testimony, pursuant to Order No. 40103.³³

²⁹"Division of Consumer Advocacy's Motion for Modification of Order No. 39370, Issued June 14, 2023," filed on June 23, 2023 ("CA Motion for Modification").

³⁰"Division of Consumer Advocacy's Direct Testimonies and Exhibits," filed on July 12, 2023 ("CA Direct Testimonies").

³¹Order No. 40103, "Granting the Division of Consumer Advocacy's Motion For Modification of Order No. 39370, Issued June 14, 2023, and Modifying the Procedural Schedule," filed on July 18, 2023 ("Order No. 40103").

³²Order No. 40103 at 11-12.

³³"Division of Consumer Advocacy's Supplemental Direct Testimony," filed on July 24, 2023 ("CA Supplemental Testimonies").

On August 17, 2023, Hawaii Water submitted its Rebuttal Testimonies and Exhibits.³⁴

On September 8, 2023, the Parties submitted a joint letter requesting to extend the deadline for any settlement agreement and proposed decision and order by two weeks, i.e., by September 22, 2023.³⁵ On September 13, 2023, the Commission issued Order No. 40249, granting the Parties' Joint Letter Request.³⁶

On September 22, 2023, the Parties filed the Stipulation, which included a proposed decision and order ("Parties' Proposed D&O").³⁷

³⁴"Hawaii Water Service Company, Inc.'s Rebuttal Testimonies and Exhibits; and Certificate of Service," filed on August 17, 2023 ("Hawaii Water Rebuttal Testimonies").

³⁵Letter From: D. Nakashima To: Commission Re: Docket No. 2022-0186 - In re Application of Hawaii Water Service Company, Inc. for Approval of a General Rate Increase for its Pukalani Wastewater Division and Certain Tariff Changes - Motion for Enlargement of Time to File the Settlement Agreement, filed on September 8, 2023 ("Joint Letter Request").

³⁶Order No. 40249, "Granting the Parties' Joint Request for Enlargement of Time," filed on September 13, 2023 ("Order No. 40249").

³⁷See Stipulation.

II.

STATEMENT OF ISSUES

As stipulated by the Parties and approved by the Commission in Order No. 39370, the Statement of Issues is as follows:

1. Are Hawaii Water'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, 2023 through December 31, 2023 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 reasonable?
2. Are Hawaii Water's proposed tariff changes to Tariff No. 1, including the applicable revised rate schedules, reasonable?

III.

DISCUSSION

A.

Timing of Decision and Order

Pursuant to HRS § 269-16, subsection (f) applies to applicants with annual gross revenues of less than \$2 million,
2022-0186 14

and 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.³⁸ Conversely, subsection (d) of HRS § 269-16 applies to applicants with annual gross revenues of \$2 million or more, and requires the Commission to make every effort to issue a proposed decision and order within nine months from the filing of a completed application.³⁹

In its Application, Hawaii Water represents that its Pukalani Wastewater Division has annual gross operating revenues of less than \$2 million.⁴⁰ Notwithstanding its annual gross revenues, Hawaii Water requested that the Commission conduct this proceeding pursuant to HRS § 269-16(d), as amended, and issue a decision and order within nine months following the filing of a complete Application.⁴¹

In Order No. 39072, the Commission granted Hawaii Water's request to waive the provisions of HRS § 269-16(f)

³⁸HRS § 269-16(f) (3).

³⁹HRS § 269-16(d).

⁴⁰Application at 8 n.9; Exhibit HWSC 6.

⁴¹Application at 2. See also Letter From: D. Nakashima To: Commission Re: Docket No. 2022-0186 - In re Application of Hawaii Water Service Company, Inc. for Approval of General Rate Increase for its Pukalani Wastewater Division - Response to the Division of Consumer Advocacy's Statement of Position Regarding Completeness of Application, Filed on January 19, 2023, filed on January 23, 2023.

requiring a proposed decision and order within six months from the date of a completed application and instead proceed according to the timeframe under HRS § 269-16(d).⁴²

HRS § 269-16(d) provides, in relevant part, that “[t]he [C]ommission shall make every effort to complete its deliberations and issue its decision as expeditiously as possible and before nine months from the date the public utility filed its completed application; provided that in carrying out this mandate, the [C]ommission shall require all parties to a proceeding to comply strictly with procedural time schedules that it establishes.”⁴³ “Notwithstanding subsection (c), if the [C]ommission has not issued its final decision on a public utility’s rate application within the nine-month period stated in this section, the [C]ommission, within one month after the expiration of the nine-month period, shall render an interim decision allowing the increase in rates, fares, and charges, if any, to which the [C]ommission, based on the evidentiary record before it, believes the public utility is probably entitled.”⁴⁴

⁴²See Order No. 39072 at 16, and 18-19. In granting the waiver, the Commission did not modify any other procedural or substantive provisions of HRS § 269-16 in this case.

⁴³HRS § 269-16(d).

⁴⁴HRS § 269-16(d).

Here, the nine-month period for the date of Hawaii Water's completed application ended on September 30, 2023.⁴⁵ However, as noted above, this procedural schedule was subsequently modified by: (1) the Consumer Advocate's Motion for Modification to extend the deadline for its Direct Testimonies and to file Supplemental Testimonies; and (2) the Parties' joint request for additional time to file the Stipulation. Notably, the Parties' joint request extended the deadline for any settlement agreement to September 22, 2023. This left only five business days from the date of submission until the end of the nine-month period. Alternatively, denying the Parties' joint request may have resulted in the Parties not having sufficient time to reach a settlement on all issues, which would have left more disputed issues to resolve and resulted in a less efficient proceeding.⁴⁶ Taking the above into account, it was not feasible for the Commission to reasonably issue a final decision on Hawaii Water's request by September 30, 2023.

⁴⁵As noted above, the filing date of Hawaii Water's completed Application is December 30, 2022. See Order No. 39072.

⁴⁶See Joint Letter Request at 1 ("The Parties respectfully assert that there is good cause to approve this request because this additional time is expected to resolve most, if not all, of the disputed issues in this proceeding, which should, in turn, lead to a more efficient use of resources and administrative efficiency by providing the Commission with less disputed issues and conflicting positions that it may have to decide and rule upon, and potentially result in a more expedient decision in the subject docket.").

HRS § 269-16(d) contemplates such a situation and provides an additional month for the Commission to issue an interim decision if a final decision cannot be issued within nine months. Based on the circumstances, the Commission is issuing its final Decision & Order within this allowed extended period, i.e., by October 30, 2023. As the record is now complete, the Commission is issuing a final decision, rather than an interim decision based on probable entitlement. The Commission finds that this is more administratively efficient than issuing an interim decision based on probable entitlement, followed by a final decision, as no further development of the record is contemplated.

Based on the above, the Commission finds that it has reasonably complied with the timing provisions of HRS § 269-16.

B.

Settlement Stipulation

1.

Terms and Conditions

As a preliminary matter, the Commission observes that the Parties' Stipulation only expressly addresses certain matters and implicitly relies on the record to address other matters the Parties deem resolved. In particular, the Stipulation explicitly addresses "10 issues [that] were unresolved or not clearly resolved [based on positions set forth in the Consumer Advocate's

Direct Testimonies and Hawaii Water's Rebuttal Testimonies]:“ Labor-Payroll expense, TCJA deferred tax adjustment, TCJA surcredit, COVID-19 surcharge, deferred accounting treatment for sewer lateral projects, additional plant in service, test year expense adjustments utilizing the Honolulu Consumer Price Index (“CPI”), employee benefits expense (workers compensation), rate of return, and the phase-in period for the stipulated rate increase.⁴⁷ While the remainder of issues are not expressly addressed, it is implied that consensus on these issues is reflected in the record (e.g., through the Consumer Advocate's non-opposition in its Direct Testimonies and Hawaii Water's acceptance of certain modifications in its Rebuttal Testimonies). Further, the Parties' settled agreements on all relevant issues are summarized in the Parties' Proposed D&O, which is attached to the Stipulation. The Commission thus considers the Parties' global settlement to be reflected through both: (1) the cover letter to the Stipulation; and (2) the Parties' Proposed D&O, including exhibits, attached to the Stipulation.⁴⁸

⁴⁷Stipulation at 1-2.

⁴⁸The Parties' Proposed D&O contains certain statements and representations that are not otherwise explicitly referenced in the record. As the Parties' Proposed D&O was jointly submitted by the Parties and is intended to serve as the basis for this Decision & Order, the Commission construes proposed statements, conclusions, representations, or findings in the Parties' Proposed D&O as extensions of the Stipulation and reflect the Parties'

The Stipulation states that the Parties agree that the provisions of the Stipulation are binding between them with respect to the resolution of the specific issues and matters of disagreement in the subject docket. It further states:

In all respects, it is understood and agreed that the agreements evidenced in this Stipulation represent compromises by the Parties to fully and finally resolve all of the issues and matters discussed herein on which they had differences for the purpose of simplifying and expediting this proceeding, and are not meant to be an admission by either of the Parties as to the acceptability or permissibility of matters stipulated to herein.

The Parties reserve their respective rights to proffer, use and defend different positions, arguments, methodologies, or claims regarding the matters stipulated to herein in other dockets or proceedings. Furthermore, the Parties agree that nothing contained in this Stipulation shall be deemed to, nor be interpreted to, set any type of precedent, or be used as evidence of either Parties' position in any future regulatory proceeding, except as necessary to enforce this Stipulation, and except as may be specifically agreed to herein.⁴⁹

While the Parties have reached agreement on all of the issues, the Stipulation is subject to the Commission's review and approval and the Commission is not bound by the Stipulation. In this regard, it is well-settled that an agreement between the parties in a rate case cannot bind the Commission, as the

agreement on various issues. Where applicable, this Decision & Order will make references, accordingly.

⁴⁹Stipulation at 7.

Commission has an independent obligation to set fair and just rates and arrive at its own conclusion.⁵⁰

With this mandate, the Commission proceeds in reviewing the Parties' Stipulation.

2.

Summary⁵¹

The Parties stipulate to a revenue requirement of \$1,942,976 for Hawaii Water's Pukalani wastewater service based on Hawaii Water's 2023 test year, resulting in an overall revenue increase of \$493,180 or approximately 34.0% from present rates.⁵² The Parties further agree on the rate design proposed by Hawaii Water in the Application, including a two-year phase-in for the stipulated rate increase.⁵³

Each category of Hawaii Water's revenue requirement is discussed in greater detail, below.

⁵⁰See In re Hawaiian Elec. Co., Inc., 5 Haw. App. 445, 447, 698 P.2d 304, 307 (1985).

⁵¹There may be slight differences between the summed values and listed totals in some of the foregoing tables. These minor differences are due to rounding.

⁵²Stipulation, Exhibit A, Schedule 6.

⁵³See Stipulation at 7 and Parties' Proposed D&O at 50-51.

C.

Operating Revenues

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

1.

Residential

Hawaii Water initially projected a total residential count of 991 residential customers, consisting of 784 single-family customers and 207 multi-family customers, with estimated revenues of \$940,419 at present rates and \$1,222,000 at proposed Test year rates.⁵⁴ Hawaii Water later updated this estimated customer count to 992 residential customers (adding an additional single-family customer) and revised its figures to \$941,368 at present rates.⁵⁵

The Consumer Advocate did not have any adjustments to the customer count or estimated revenues at present rates.⁵⁶

⁵⁴Application, Exhibits HWSC 6 and 8.2.

⁵⁵Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.2.

⁵⁶See CA Direct Testimonies, CA-T-2 at 18.

In its Rebuttal Testimonies, Hawaii Water stated that its understanding is that the Parties are in agreement on customer count.⁵⁷

The Commission finds reasonable the Parties' stipulated residential customer count and associated revenues of \$941,368 at present rates.⁵⁸ Based on the Parties' global settlement on Hawaii Water's revenue requirement and rate design, the Parties have stipulated to revenues of \$1,159,436 from residential customers at Test Year proposed rates.⁵⁹ Based on review of the record, the Commission finds these figures reasonable.

2.

Commercial and Public Authority

Hawaii Water initially projected 17 commercial customers for the 2023 Test Year, with revenues at present rates of \$311,584.⁶⁰ Hawaii Water later updated this to 19 commercial customers, with revenues at present rates of \$297,130.⁶¹

⁵⁷See Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 3 and Exhibits HWSC 6 and 8.2 (Rebuttal).

⁵⁸See Stipulation, Exhibit A, Schedule 6.

⁵⁹See Stipulation, Exhibit A, Schedule 6.

⁶⁰Application, Exhibits HWSC 6 and 8.1.

⁶¹Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.1.

Hawaii Water projects one public authority customer for the 2023 Test Year, with estimated Test Year revenues at present rates of \$3,461.⁶²

The revenue at present rates was calculated for commercial customers using present adopted rates, multiplied by estimated commercial billed sewer flows for the Test Year.⁶³

The Consumer Advocate did not have any adjustments to the customer count or projected Test Year revenue at present rates.⁶⁴

In its Rebuttal Testimonies, Hawaii Water stated that it was its understanding that the Parties are in agreement on commercial customer count and revenues at present rates.⁶⁵

The Commission finds reasonable the Parties' stipulated commercial customer count and revenue at present rates from commercial customers of \$297,130 and from the Public Authority customer of \$3,461.⁶⁶ Based on the Parties' global settlement on

⁶²Application, Exhibit HWSC 8.2 and Exhibit HWSC 6. See also, Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, provided updated exhibits and indicating no change from the Application.

⁶³Application, HWSC-T-100 at 3.

⁶⁴CA Direct Testimonies, CA-T-2 at 18.

⁶⁵Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 3 and Exhibits HWSC 6 and 8.2 (Rebuttal).

⁶⁶See Stipulation, Exhibit A, Schedule 6.

Hawaii Water's revenue requirement and rate design, the Parties have stipulated to revenues of \$571,065 from commercial customers and \$4,638 from its Public Authority customer at Test Year proposed rates.⁶⁷ Based on review of the record, the Commission finds these figures reasonable.

3.

Billed Sewer Flows and Effluent Rates

Hawaii Water initially projected one effluent customer for the 2023 Test Year, with no revenue at present rates.⁶⁸ Hawaii Water later updated these figures to reflect two customers for the Test Year, with associated revenue of \$13 at present rates.⁶⁹ As noted above, Hawaii Water is not proposing to increase its effluent rate in this proceeding, and Hawaii Water estimates that they will remain at \$13 under Test Year proposed rates.⁷⁰

Hawaii Water defines its "billed sewer flows" as "the amount of potable-metered water use that is used as a proxy for

⁶⁷See Stipulation, Exhibit A, Schedule 6.

⁶⁸Application, Exhibit HWSC 8.2 and Exhibit 6.

⁶⁹Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6, 8.1, and 8.2

⁷⁰Application at 4; see also, Exhibit HWSC 6.

sewer flows," which is measured in thousands of gallons ("TG").⁷¹ Sewer flow utilized by Kamehameha Schools, one of Hawaii Water's major commercial customers, is deducted since the school installed an irrigation meter and its billed sewer flows are based upon potable metered water use.⁷² Hawaii Water projected billed sewer flows based on a three-year average of recorded billed sewer flows from 2020-2022.⁷³

In its Direct Testimonies, the Consumer Advocate accepted Hawaii Water's methodology to forecast Test Year billed sewer flows.⁷⁴

In its Rebuttal Testimonies, Hawaii Water stated that it was its understanding that the Parties were in agreement on billed sewer flows.⁷⁵

Based on the record, the Commission finds reasonable the Parties' stipulated effluent revenues of \$13 at present rates and proposed Test Year rates.⁷⁶

⁷¹Application, Exhibit HWSC-T-100 at 5.

⁷²Application, Exhibit HWSC-T-100 at 5.

⁷³Application, Exhibit HWSC-T-100 at 5 (relying on data from the 2019-2021 period).

⁷⁴CA Direct Testimonies, CA-T-2 at 18.

⁷⁵Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 3-4 and Exhibit HWSC 6.

⁷⁶See Stipulation, Exhibit A, Schedule 6.

Power Cost Charge

In its last rate case (Docket No. 2015-0236), the Commission approved Hawaii Water's request to replace its automatic power cost adjustment clause ("PCAC") with a monthly power cost charge ("PCC").⁷⁷ The PCAC served as an annual power cost true up that reconciled the difference between electricity expenses in base rates and actual electricity costs experienced by Hawaii Water during a calendar year.⁷⁸ Hawaii Water proposed a PCC as a means to true up its power costs on a monthly, rather than annual basis, which Hawaii Water believed was more effective.⁷⁹ The Commission approved Hawaii Water's request, but required Hawaii Water to file a monthly Power Cost Charge Report "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[,]" and to also post this report on its website.⁸⁰

⁷⁷See Docket No. 2015-0236, "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 ("2015 Rate Case Application"), at 12-13.

⁷⁸See 2015 Rate Case Application, Exhibit HWSC-T-100 at 23-24.

⁷⁹2015 Rate Case Application, Exhibit HWSC-T-100 at 24.

⁸⁰Docket No. 2015-0236, Proposed Decision and Order No. 34822, filed on September 15, 2017 ("D&O 34822") at 73.

In the Application, Hawaii Water does not propose any changes to the PCC.⁸¹ Hawaii Water calculated its PCC revenue by using its electricity costs in the Test Year and multiplying it by a revenue tax factor of 1.06385.⁸² In the Application, Hawaii Water initially estimated \$194,506 in revenue from its Power Cost Charge ("PCC") at present rates and proposed Test Year rates,⁸³ which it later updated to \$207,824.⁸⁴ Hawaii Water clarifies that although it provides an estimate of revenues it expects to collect during the Test Year from the PCC, this is only intended to demonstrate how the PCC works, and "actual PCC passed through to customers varies month to month depending on the power consumed and sales that month."⁸⁵ (In this regard, the Commission observes that the PCC revenue component of Hawaii Water's proposed Test Year is revenue neutral, in that it does not contemplate any increase in rates to achieve a desired revenue amount⁸⁶).

⁸¹Application, Exhibit HWSC-T-100 at 17.

⁸²Application, Exhibit HWSC-T-100 at 17.

⁸³Application, Exhibit HWSC-T-100 at 17 and Exhibit HWSC 6.

⁸⁴Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6, 8.1, and 8.7.

⁸⁵Application, Exhibit HWSC-T-100 at 17.

⁸⁶See Application, HWSC Exhibit 6 and Stipulation, Exhibit A, Schedule 6.

The Consumer Advocate accepted Hawaii Water's methodology for calculating its PCC revenues.⁸⁷

The Commission finds reasonable the Parties' stipulated PCC revenue of \$207,824 at present and proposed rates.⁸⁸ However, consistent with the Commission's decision in Hawaii Water's last rate case, the Commission will continue to require Hawaii Water to 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 PCC is in effect. Hawaii Water shall also continue to post its monthly Power Cost Charge Report on Hawaii Water's website.⁸⁹

5.

Other Revenues

In the Application, Hawaii Water included proposed "other revenues" of (\$2,831) at present rates (a negative figure) and a corresponding increase of \$2,831 to result in a Test Year amount of \$0.⁹⁰ "Other revenue" is not defined or explained by

⁸⁷CA Direct Testimonies, CA-T-2 at 18.

⁸⁸See Stipulation, Exhibit A, Schedule 6.

⁸⁹C.f. D&O 34822 at 73.

⁹⁰Application, Exhibit HWSC 6.

Hawaii Water in the Application or supporting testimonies, but it appears to be comprised of two subcategories of revenues identified as "Miscellaneous" and "Unbilled Revenues/Adjustments"⁹¹ (HWSC Exhibits 8 and 8.1 reflect (\$5,479) in Miscellaneous revenues for 2021 and \$2,649 in Unbilled Revenues/Adjustment revenues for 2021; $(5,479) + 2,649 = \$2,831$). Neither the "Miscellaneous" nor the "Unbilled Revenues/Adjustments" are explained or described. The Commission also observes that while revenues for "Unbilled Revenues/Adjustments" is identified as "\$2,648 in Exhibits HWSC 8 and 8.1 of the Application, in Exhibit HWSC 2, Schedule D (Hawaii Water's balance sheet for 2021), "Other Water Revenues - Unbilled Rev Adj" is identified as \$0.⁹²

The Consumer Advocate did not address "Other Revenues" in its Direct Testimonies, and in its calculations incorporated Hawaii Water's original proposal for "Other Revenues" in its

⁹¹See Application, Exhibits HWSC 8 and 8.1.

⁹²Application, Exhibit HWSC 2, Schedule D at 6. The Commission also notes that when Hawaii Water updated its figures in response to CA-IR-1, it removed amounts of its "Other Revenues" at present rates from its calculations. See Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, at updated Exhibit HWSC 8.1 (providing for no \$ figures for "Miscellaneous," "Unbilled Revenue/Adjustments," and "Other" for test year present rates).

Test Year (i.e., utilizing (\$2,831) at present rates and providing for a revenue increase of \$2,831).⁹³

Other Revenues were not addressed in Hawaii Water's Rebuttal Testimonies or the Parties' Stipulation. The Stipulation carries over "Other Revenues" from Hawaii Water's Application and reflects "Other Revenues" at present rates of (\$2,831) and an increase in \$2,831 to reach a Test Year balance of \$0.⁹⁴

Taking the above into consideration, the Commission does not believe the record sufficiently explains what Hawaii Water's "Other Revenues" are. However, the Commission observes that while it is reflected in Hawaii Water's schedule of operations, it does not appear to be factored into Hawaii Water's proposed or stipulated Test Year operations. Other Revenues does not appear to affect total operating revenues, taxes, total operating expenses, or operating income. For example, when looking at the Parties' stipulated schedule of operations, when adding up the Total Operating Revenues necessary to reach the stipulated increase of \$493,180, "Other Revenues" is excluded from the calculation.⁹⁵

⁹³See CA Direct Testimonies, Exhibit CA-201 at 2.

⁹⁴See Stipulation, Exhibit A, Schedule 6.

⁹⁵See Stipulation, Exhibit A, Schedule 6. Specifically, column (2), "Additional Amount" provides for the respective increases to revenues from Residential (\$218,067), Commercial (\$273,935), and Public Authority (\$1,177) necessary to

Taking this into account, while the Commission is unclear about the nature of "Other Revenues," it also notes that it does not affect the Test Year or the stipulated rates. Thus, the Commission will remove "Other revenues" from the schedule of operations (see Exhibit A) to avoid confusion.

D.

Operating Expenses

1.

General Methodology and Inflation Adjustment

In the Application, Hawaii Water asserted that an average of the most recent three-year actual recorded expenses (2019-2021) was used as the basis for most administrative, operational, and maintenance expenses in the Test Year⁹⁶ (different methodologies were used to estimate payroll, employee benefits, rents, insurance, and regulatory expenses,⁹⁷ as described below). Certain recorded expenses were then adjusted with a Consumer Price

reach the stipulated revenue increase of \$493,180, which drives the stipulated rate increase of 34.0%. Although "Other revenues" has "\$2,831" in "additional" revenues listed in column (2), that figure does not appear to be included in Total Operating Revenues.

Ex: \$493,180 [Total Operating Revenues] = \$218,067 [Residential] + \$273,935 [Commercial] + \$1,177 [Public Authority].

⁹⁶Application, Exhibit HWSC-T-200 at 1.

⁹⁷See Application, Exhibit HWSC-T-200 at 2.

Index ("CPI") factor to account for changes in prices of goods and services from the averaging period up to the Test Year using a two-step process:

First, the annual recorded expenses were adjusted to 2021 dollars using Honolulu CPI and then a three-year average of the adjusted figures was calculated. Published U.S. Department of Labor Bureau of Labor and Statistics data was used to adjust recorded expenses. Since federal CPI data is not available for neighbor islands, the best available data, which was for Honolulu, was used.

. . . .

The methodology of adjusting certain recorded expenses by CPI is reasonable for rate making because it better represents forecasted costs during the test year. The inclusion of a CPI inflation factor acknowledges the fact that the purchasing power of a dollar diminishes over time. If a CPI factor was not used to adjust recorded expenses, obsolete costs would be used to determine test year expenses, and a reasonable opportunity to recover forecasted expenses during the test year would not exist. This is amplified since Hawaii Water is proposing a 2-year phase-in of the test year revenue requirement.⁹⁸

In its Direct Testimonies, the Consumer Advocate objected to any inflation adjustment using the CPI because "CPI adjustments are not known and measurable in developing costs for rate making[.]"⁹⁹ The Consumer Advocate added:

CPI have no foundational reasoning. CPI adjustments are defined as broad economic adjustments that do not particularly address one

⁹⁸Application, Exhibit HWSC-T-200 at 2-3 (internal citation omitted).

⁹⁹CA Direct Testimonies, CA-T-2 at 19.

individual expense category but are essentially overall blanket adjustments that are applied to all goods and services that may or may not relate to costs to be incurred by the Company, especially if the CPI adjustment particularly relates to housing, clothing, food, etc. which are not typically costs incurred by a public utility in the provision of safe and reliable service to ratepayers.¹⁰⁰

In its Rebuttal Testimonies, Hawaii Water responded as follows:

Hawaii Water does not agree with the Consumer Advocate's statements. Hawaii Water uses recorded costs to project future costs. The Consumer Advocate's position seems to suggest that the historical cost of Hawaii Water's expenses are the same as they would be in the Test Year. This is not the case. Implying that utilities do not experience inflationary pressures on salaries, goods and services that other industries experience is unfounded and unreasonable. Hawaii Water experiences inflationary pressures similar to other industries, and the disallowance of an inflation adjustment is not supported by economic data.¹⁰¹

During settlement discussions, the Consumer Advocate agreed to the use of Hawaii Water's proposed CPI methodology in this proceeding as part of an overall settlement agreement.¹⁰²

Based on the record, the Commission finds reasonable the Parties' use of the CPI factor for Hawaii Water's inflation adjustment to certain recorded expenses.

¹⁰⁰CA Direct Testimonies, CA-T-2 at 20.

¹⁰¹Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 3.

¹⁰²Stipulation at 6.

2.

Labor

Hawaii Water's labor expense "is based on the cost of total labor, including wages [(payroll)], benefits, and payroll taxes."¹⁰³ In the Application, Hawaii Water estimated total labor expenses for the Test Year as follows:¹⁰⁴

**Hawaii Water Service
Company**

Payroll Reference	Benefits	Taxes	Total	Exhibit
\$312,552	\$195,981	\$42,360	\$550,983	HWSC 8.5

Table 201. Labor Expense.

Hawaii Water clarified that it would update its estimated 2023 payroll figures with actual 2023 payroll figures once they become available.¹⁰⁵

¹⁰³Application, Exhibit HWSC-T-200 at 3.

¹⁰⁴Application, Exhibit HWSC-T-200 at 4.

¹⁰⁵Application, Exhibit HWSC-T-200 at 3.

i.

Payroll

In the Application, Hawaii Water calculated \$312,552 in payroll expense for the Test Year “by escalating the estimated 2022 payroll by 5.0%, which is the expected increase in payroll.”¹⁰⁶

Subsequently, Hawaii Water provided updated figures that projected a payroll expense of \$256,528 for the Test Year.¹⁰⁷ In reaching these adjusted amounts, Hawaii Water modified its calculations by increasing the Test Year payroll expense by 6%, which Hawaii Water stated, “was the average increase for employees company-wide from 2022 to 2023.”¹⁰⁸

The Consumer Advocates accepted the use of a 6% increase to payroll, but proposed adjustments to average out costs related to worker’s compensation costs, incentive compensation and bonuses, and overtime (only incentive compensation, bonuses, and overtime pertain to payroll expense; worker’s compensation is discussed as part of benefits, infra).¹⁰⁹ In its Rebuttal Testimonies, Hawaii Water asserted that the Consumer Advocate’s

¹⁰⁶Application, Exhibit HWSC-T-200 at 3.

¹⁰⁷Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibit HWSC 8.5.

¹⁰⁸Hawaii Water Response to CA-IR-3.b.

¹⁰⁹CA Direct Testimonies, CA-T-2 at 22-24.

adjustments are unnecessary because it already historically excludes overtime, bonus, and incentive costs in its Test Year payroll calculations.¹¹⁰

During settlement discussions, based on additional information provided by Hawaii Water "that supported their assertion that the Test Year payroll expense already excluded overtime, bonus, or incentive costs," the Parties agreed to a Test Year payroll expense of \$256,528.¹¹¹

Based on the record, the Commission finds reasonable the stipulated Test Year payroll expense of \$256,528.

ii.

Employee Benefits

In the Application, Hawaii Water calculated \$195,981 in employee benefits expense for the Test Year, "based on a study conducted by [Ernst & Young, LLP] regarding estimates for Pension and Retiree Healthcare, and is exclusive of 401k employer matching

¹¹⁰Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 7-8.

¹¹¹Stipulation at 2.

expenses.”¹¹² Hawaii Water later updated this figure to 66,856.¹¹³ Included within this was \$7,260 for workers compensation.

In its Direct Testimonies, the Consumer Advocate recommended averaging out the workers compensation costs, which reduced this component from \$7,260 to \$3,933.¹¹⁴ In its Rebuttal Testimonies, Hawaii Water responded that the Consumer Advocate has historically accepted the methodology of multiplying the projected payroll by 2.83% and believed “precedent should be followed in this case.”¹¹⁵

During settlement negotiations, Hawaii Water expressed a willingness to change the methodology from multiplying the projected payroll by a certain percentage to averaging out the workers compensation costs over a three-year period, provided, however, that this new methodology is used consistently going forward.¹¹⁶ During settlement negotiations, “the Parties agreed to average out the workers compensation costs over the three-year

¹¹²Application, Exhibit HWSC-T-200 at 4.

¹¹³Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibit HWSC 8.5.

¹¹⁴See CA Direct Testimonies, CA-T-2 at 22-23; see also Exhibit CA-210.

¹¹⁵Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 9. The Commission notes that $.0283 \times 256,528$ (Hawaii Water’s updated payroll expense) = 7,260 (rounded up).

¹¹⁶Stipulation, Parties’ Proposed D&O at 28.

period of 2020-2022, as recommended by the Consumer Advocate.”¹¹⁷ Accordingly, the Parties stipulate to a workers compensation balance of \$3,933, which results in an overall Test Year employee benefits expense of \$63,529.

The Commission finds reasonable the stipulated Test Year employee benefits expense of \$63,529.

iii.

Payroll Taxes

Payroll taxes are a function of payroll expense. In light of the Parties’ stipulation for a Test Year payroll expense of \$256,528, the Parties also stipulate Test Year payroll tax expense of \$39,361.¹¹⁸

The Commission finds reasonable the stipulated Test Year payroll tax expense of \$39,361.

¹¹⁷Stipulation at 6.

¹¹⁸See Stipulation at 2.

iv.

Total Labor Expense

As a result of their settlement discussions, the Parties have stipulated to a Test Year labor expense as follows:¹¹⁹

Payroll	\$256,528
Employee Benefits	\$ 63,529
Payroll Taxes	\$ 39,361
<u>Total Labor Expense</u>	<u>\$359,417¹²⁰</u>

Based on the findings in preceding sections, the Commission finds reasonable the stipulated total Test Year labor expense of \$359,417.

3.

Fuel & Power

According to Hawaii Water, “[p]urchased power expense varies with the amount of wastewater pumped from lift stations and treated at the wastewater treatment plant (‘WWTP’).”¹²¹ Hawaii Water estimated its power use for the Test Year by multiplying its expected kilowatt-hour usage in the Test Year by a unit cost based on a three-year average of Hawaii Water’s recorded power use.¹²² Hawaii Water stated that its fuel for power

¹¹⁹See Stipulation at 2 and 6.

¹²⁰See Stipulation, Exhibit A, Schedule 6.

¹²¹Application, Exhibit HWSC-T-200 at 4.

¹²²Application, Exhibit HWSC-T-200 at 4.

production was estimated by taking a three-year average of recorded fuel for production.¹²³

In the Application, using data for 2019-2021, Hawaii Water projected \$184,933 for its Test Year fuel & power expense as follows:¹²⁴

Energy Consumption [kWh]	Energy Expense [\$]	Unit Cost [\$ / kWh]	Fuel for Power Production	Total Fuel and Power	Exhibit Reference
595,539	\$182,833	\$0.3070	\$2,100	\$184,933	HWSC 8.6

Table 202. Fuel and Power Expense.

Hawaii Water later, using data from 2020-2022, updated this estimate to 196,751.¹²⁵

The Consumer Advocate accepted Hawaii Water's proposed Test Year fuel & power expense of \$196,751,¹²⁶ which Hawaii Water acknowledged in its Rebuttal Testimonies.¹²⁷ As a result,

¹²³Application, Exhibit HWSC-T-200 at 4.

¹²⁴Application, Exhibit HWSC-T-200 at 5.

¹²⁵Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.6.

¹²⁶CA Direct Testimonies, CA-T-2 at 25.

¹²⁷Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 11.

the Parties have stipulated to a Test Year fuel & power expense of \$196,751.¹²⁸

The Commission finds the stipulated Test Year fuel and power expense of \$196,751 reasonable.

4.

Chemicals

Hawaii Water purchases chemicals "for wastewater operations to treat wastewater pumped to the WWTP."¹²⁹ In its Application, Hawaii Water initially proposed \$56,125 for its Test Year chemical expense, based on "a three-year average from 2019-2021 of CPI-adjusted recorded expenses."¹³⁰ Hawaii Water later updated this figure to \$55,330.¹³¹

The Consumer Advocate recommended eliminating the inflation adjustment, which would result in a revised Test Year chemicals expense of \$50,537.¹³²

¹²⁸See Stipulation, Exhibit A, Schedule 6.

¹²⁹Application, Exhibit HWSC-T-200 at 5.

¹³⁰Application, Exhibit HWSC-T-200 at 5. See also, id., Exhibit HWSC 6.

¹³¹Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.8.

¹³²See CA Direct Testimonies, CA-T-2 at 27; see also, Exhibit CA-212.

In its Rebuttal Testimonies, Hawaii Water disagreed with the Consumer Advocate's exclusion of the CPI adjustments from the Test Year estimate.¹³³

As noted above, as part of their settlement, the Parties agreed to the use of the CPI for Hawaii Water's inflation adjustment for certain expenses.¹³⁴ Accordingly, the Parties stipulated to Test Year chemicals expense of \$55,330 (i.e., Hawaii Water's updated Test Year estimate).¹³⁵

Based on the record, the Commission finds reasonable the Parties' stipulated Test Year chemicals expense of \$55,330.

5.

Materials and Supplies

The materials and supplies expense is grouped using the following categories: treatment and disposal, water treatment and water quality, transmission and distribution, collection, and pumping.¹³⁶ In its Application, Hawaii Water initially proposed an estimated Test Year expense of \$28,153 based on a

¹³³Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 12.

¹³⁴See Stipulation at 5-6.

¹³⁵See Stipulation, Exhibit A, Schedule 6.

¹³⁶Application, Exhibit HWSC-T-200 at 5.

three-year average (2019-2021) of CPI-adjusted recorded expenses.¹³⁷ Hawaii Water later updated its estimate to \$23,075.¹³⁸

The Consumer Advocate recommended eliminating the inflation adjustment, which would result in a revised Test Year expense of \$21,563.¹³⁹

In its Rebuttal Testimonies, Hawaii Water disagreed with the Consumer Advocate's exclusion of the CPI adjustments from the Test Year estimate.¹⁴⁰

As noted above, as part of their settlement, the Parties agreed to the use of the CPI for Hawaii Water's inflation adjustment for certain expenses.¹⁴¹ Accordingly, the Parties stipulated to a Test Year materials and supplies expense of \$23,075 (i.e., Hawaii Water's updated Test Year estimate).¹⁴²

Based on the record, the Commission finds reasonable the Parties' stipulated Test Year materials and supplies expense of \$23,075.

¹³⁷Application, Exhibit HWSC-T-200 at 5; see also, id., Exhibit HWSC 6.

¹³⁸Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.9.

¹³⁹CA Direct Testimonies, CA-T-2 at 28; see also, Exhibit CA-213.

¹⁴⁰Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 13.

¹⁴¹See Stipulation at 5-6.

¹⁴²See Stipulation, Exhibit A, Schedule 6.

Water/Sludge Disposal

“Waste disposal expense consists of fees for the removal and disposal of dewatered sludge from the WWTP.”¹⁴³ In its Application, Hawaii Water initially proposed an estimated Test Year expense of \$47,870 based on a three-year average (2019-2021) of CPI-adjusted recorded expenses.¹⁴⁴ Hawaii Water later updated its estimate to \$44,870.¹⁴⁵

The Consumer Advocate recommended eliminating the inflation adjustment applied to recorded expenses, which would result in a revised Test Year waste disposal expense of \$41,241.¹⁴⁶

In its Rebuttal Testimonies, Hawaii Water disagreed with the Consumer Advocate’s exclusion of the CPI adjustments from the Test Year estimate.¹⁴⁷

As noted above, as part of their settlement, the Parties agreed to the use of the CPI for Hawaii Water’s inflation

¹⁴³Application, HWSC-T-200 at 6.

¹⁴⁴Application, Exhibit HWSC-T-200 at 6; see also, id., Exhibit HWSC 6.

¹⁴⁵Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.10.

¹⁴⁶See CA Direct Testimonies, CA-T-2 at 29; see also, Exhibit CA-214.

¹⁴⁷Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 13-14.

adjustment for certain expenses.¹⁴⁸ Accordingly, the Parties stipulated to Test Year waste/sludge expense of \$44,870 (i.e., Hawaii Water's updated Test Year estimate).¹⁴⁹

Based on the record, the Commission finds reasonable the Parties' stipulated Test Year waste/sludge expense of \$44,870.

7.

Affiliated Charges

As discussed above, Hawaii Water is part of the CWSG. "CWSG's expenses are allocated to its subsidiaries based on relative proportions of work being performed[,] with "[a] large portion of the work resid[ing] in Customer Support Services ('CSS") of [CWSG]."¹⁵⁰ "These functions are provided centrally at CSS because it is more cost effective to do so than to hire the specific expertise needed for each particular subsidiary."¹⁵¹

Hawaii Water initially estimated its Test Year affiliated charges expense of \$56,814 based on a three-year average

¹⁴⁸See Stipulation at 5-6.

¹⁴⁹See Stipulation, Exhibit A, Schedule 6.

¹⁵⁰Application, Exhibit HWSC-T-200 at 6-7.

¹⁵¹Application, Exhibit HWSC-T-200 at 7.

(2019-2021) of Hawaii Water's adjusted allocation from CWSG.¹⁵² Hawaii Water later updated its estimate to \$54,158.¹⁵³

In its direct testimony, the Consumer Advocate recommended "averaging out the Company's Insurance Allocation over the same three-year period (2020-2022)" to "be consistent with averaging certain costs that the Company utilized through the revenue requirement calculation."¹⁵⁴ As a result, the Consumer Advocate recommended a Test Year affiliated charges expense of \$54,259.¹⁵⁵

In its Rebuttal Testimonies, Hawaii Water accepted the Consumer Advocate's recommended Test Year expense of \$54,259 for affiliated charges.¹⁵⁶ As a result, the Parties have stipulated to \$54,259 in affiliated charges expense for the Test Year.¹⁵⁷

The Commission finds the stipulated Test Year affiliated charges expense of \$54,259 for affiliated charges reasonable.

¹⁵²Application, Exhibit HWSC-T-200 at 8; see also, Exhibit HWSC 6.

¹⁵³Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.11.

¹⁵⁴CA Direct Testimonies, CA-T-2 at 30.

¹⁵⁵CA Direct Testimonies, CA-T-2 at 30. See also, Exhibit CA-215.

¹⁵⁶Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 14.

¹⁵⁷See Stipulation, Exhibit A, Schedule 6.

8.

Professional & Outside Services

Professional & outside services includes the categories of legal expenses, other outside services, and training consultants.¹⁵⁸ In its Application, Hawaii Water estimated \$6,391 in expenses for its Test Year.¹⁵⁹ Hawaii Water later updated this figure to \$6,859.¹⁶⁰

The Consumer Advocate recommended eliminating the inflation adjustment applied to recorded expenses, which would result in a revised Test Year professional & outside services expense of \$6,272.¹⁶¹

In its Rebuttal Testimonies, Hawaii Water disagreed with the Consumer Advocate's exclusion of the CPI adjustments from the Test Year estimate.¹⁶²

As noted above, as part of their settlement, the Parties agreed to the use of the CPI for Hawaii Water's inflation

¹⁵⁸Application, Exhibit HWSC-T-200 at 9.

¹⁵⁹Application, Exhibit HWSC-T-200 at 10; see also, Exhibit HWSC 6.

¹⁶⁰Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.12.

¹⁶¹See CA Direct Testimonies, CA-T-2 at 31; see also, Exhibit CA-216.

¹⁶²Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 15.

adjustment for certain expenses.¹⁶³ Accordingly, the Parties stipulated to Test Year professional & outside services expense of \$6,859 (i.e., Hawaii Water's updated Test Year estimate).¹⁶⁴

Based on the record, the Commission finds reasonable the Parties' stipulated Test Year expense of \$6,859 for professional & outside services.

9.

Repairs & Maintenance

Repairs & maintenance expense is organized using the following categories: source of supply, pumping, water treatment, transmission and distribution, other production and distribution, and administrative and general.¹⁶⁵ In its Application, Hawaii Water estimated \$160,166 in repairs & maintenance expenses for its Test Year.¹⁶⁶ Hawaii Water later updated this figure to \$165,542.¹⁶⁷

¹⁶³See Stipulation at 5-6.

¹⁶⁴See Stipulation, Exhibit A, Schedule 6.

¹⁶⁵Application, Exhibit HWSC-T-200 at 10.

¹⁶⁶Application, Exhibit HWSC-T-200 at 10; see also, Exhibit HWSC 6. The Commission observes that HWSC's testimony provides a figure of \$161,166, but its supporting schedules reference \$160,166.

¹⁶⁷Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.13.

The Consumer Advocate recommended eliminating the inflation adjustment applied to recorded expenses, which would result in a revised Test Year repairs & maintenance expense of \$151,833.¹⁶⁸

In its Rebuttal Testimonies, Hawaii Water disagreed with the Consumer Advocate's exclusion of the CPI adjustments from the Test Year estimate.¹⁶⁹

As noted above, as part of their settlement, the Parties agreed to the use of the CPI for Hawaii Water's inflation adjustment for certain expenses.¹⁷⁰ Accordingly, the Parties stipulated to Test Year repairs & maintenance expense of \$165,542 (i.e., Hawaii Water's updated Test Year estimate).¹⁷¹

Based on the record, the Commission finds reasonable the Parties' stipulated Test Year expense of \$165,542 for repairs & maintenance.

¹⁶⁸See CA Direct Testimonies, CA-T-2 at 32; see also, Exhibit CA-217.

¹⁶⁹Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 16.

¹⁷⁰See Stipulation at 5-6.

¹⁷¹See Stipulation, Exhibit A, Schedule 6.

10.

Rent

"Rents expense consists of expense related to existing leases."¹⁷² In its Application, Hawaii Water initially estimated a Test Year rental expense of \$4,873.¹⁷³ Hawaii Water later updated this figure to \$4,133.¹⁷⁴

The Consumer Advocate accepted Hawaii Water's proposed Test Year rental expense of \$4,133,¹⁷⁵ which Hawaii Water acknowledged in its Rebuttal Testimonies.¹⁷⁶ Accordingly, the Parties have stipulated to a Test Year rental expense of \$4,133.¹⁷⁷

The Commission, based on the record, finds reasonable the Parties' stipulated Test Year rental expense of \$4,133.

¹⁷²Application, Exhibit HWSC-T-200 at 10.

¹⁷³Application, Exhibit HWSC-T-200 at 11; see also, Exhibit HWSC 6.

¹⁷⁴Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.14.

¹⁷⁵CA Direct Testimonies, CA-T-2 at 33.

¹⁷⁶Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 16.

¹⁷⁷See Stipulation, Exhibit A, Schedule 6.

11.

Insurance

"Insurance expense is based on a quote from Marsh Risk & Insurance for the 2021/2022."¹⁷⁸ Insurance is procured by CWSG and allocated to Hawaii Water using the four-factor methodology.¹⁷⁹ In its Application, Hawaii Water estimated its Test Year insurance expense of \$9,961.¹⁸⁰ Hawaii Water later updated this estimate to \$9,267.¹⁸¹

The Consumer Advocate accepted Hawaii Water's proposed Test Year rental expense of \$9,267.¹⁸²

In its Rebuttal Testimonies, Hawaii Water acknowledged the Consumer Advocate's acceptance, but noted a slight discrepancy between the Consumer Advocate's testimony and supporting exhibits, which alternately refer to "\$9,267" and "9,268,"

¹⁷⁸Application, Exhibit HWSC-T-200 at 11.

¹⁷⁹Application, Exhibit HWSC-T-200 at 11. The four-factor methodology utilizes the following factors to allocate general operations costs among CWSG's regulated subsidiaries: number of customer equivalents, gross plant in service, direct operations and maintenance expenses, and direct gross payroll. See id., Exhibit HWSC-T-100 at 7.

¹⁸⁰Application, Exhibit HWSC-T-200 at 11; see also, Exhibit HWSC 6.

¹⁸¹Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.15.

¹⁸²CA Direct Testimonies, CA-T-2 at 34.

which Hawaii Water assumes is a typographical error.¹⁸³ As a result, the Parties have stipulated a Test Year insurance expense of \$9,267.¹⁸⁴

The Commission, based on the record, finds reasonable the Parties' stipulated Test Year insurance expense of \$9,267.

12.

Regulatory

"Regulatory expense includes expected work and activities related to completing this rate case[,]" such as "preparation and filing expense, discovery and settlement expense, and hearings and briefing expense."¹⁸⁵ In its Application, Hawaii Water proposed a regulatory expense of \$309,566, which would then be amortized over a four-year period, for an annual (Test Year) recovery of \$77,392.¹⁸⁶ Hawaii Water did not change this estimated expense when it updated its other Test Year figures.¹⁸⁷

¹⁸³Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 17.

¹⁸⁴See Stipulation, Exhibit A, Schedule 6.

¹⁸⁵Application, Exhibit HWSC-T-200 at 11.

¹⁸⁶Application, Exhibit HWSC-T-200 at 12; see also Exhibit HWSC 6.

¹⁸⁷See Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.16.

In its Direct Testimonies, the Consumer Advocate accepted Hawaii Water's proposed regulatory expense and four-year amortization period, with the qualification that "[i]f this instant proceeding does not require a hearing, the Company will remove the costs associated with the hearings of \$60,490."¹⁸⁸

In its Rebuttal Testimonies, Hawaii Water confirmed that if a hearing is not required, it will adjust its Test Year regulatory expense to remove the \$60,490, which would result in a revised Test Year regulatory expense of \$62,269.¹⁸⁹ As a result, the Parties have stipulated to a Test Year regulatory expense of \$62,269.¹⁹⁰

In light of the Parties' Stipulation, a hearing will not be required for this proceeding.

Based on the record, and the fact that this proceeding does not require a hearing, the Commission finds reasonable the Parties' stipulated regulatory expense of \$249,076, amortized over a four-year period, or a Test Year recovery of \$62,269.

¹⁸⁸CA Direct Testimonies, CA-T-2 at 35 (citing Hawaii Water's Response to CA-IR-16.e.).

¹⁸⁹Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 18.

¹⁹⁰See Stipulation, Exhibit A, Schedule 6.

General & Administrative

General and administrative expense covers the categories of office expenses and miscellaneous general and administrative expenses and include "postage, telephone expenses, stationery and printing, bank fees, travel and incidental expenses, meals during travel, training and seminars, conferences, and internal projects."¹⁹¹ In the Application, Hawaii Water utilized a three-year average (2019-2021) of CPI-adjusted recorded expenses to estimate a Test Year general & administrative expense of \$35,732.¹⁹² Hawaii Water later updated this figure to \$37,937.¹⁹³

The Consumer Advocate recommended eliminating the inflation adjustment applied to recorded expenses, which would result in a revised Test Year general & administrative expense of \$35,160.¹⁹⁴

¹⁹¹Application, Exhibit HWSC-T-200 at 12.

¹⁹²Application, Exhibit HWSC-T-200 at 12; see also, Exhibit HWSC 6.

¹⁹³Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.18.

¹⁹⁴See CA Direct Testimonies, CA-T-2 at 36; see also, Exhibit CA-221.

In its Rebuttal Testimonies, Hawaii Water disagreed with the Consumer Advocate's exclusion of the CPI adjustments from the Test Year estimate.¹⁹⁵

As noted above, as part of their settlement, the Parties agreed to the use of the CPI for Hawaii Water's inflation adjustment for certain expenses.¹⁹⁶ Accordingly, the Parties stipulated to Test Year general & administrative expense of \$37,937 (i.e., Hawaii Water's updated Test Year estimate).¹⁹⁷

Based on the record, the Commission finds reasonable the Parties' stipulated Test Year estimate of \$37,937 for the general and administrative expense.

14.

Customer Accounts

"Customer accounts expenses includes customer records, other station[e]ry and print telephone expenses, other utilities and janitor expenses, and uncollectible account expense."¹⁹⁸ In the Application, Hawaii Water utilized a three-year average (2019-2021) of CPI-adjusted recorded expenses to estimate a

¹⁹⁵Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 19.

¹⁹⁶See Stipulation at 5-6.

¹⁹⁷See Stipulation, Exhibit A, Schedule 6.

¹⁹⁸Application, Exhibit HWSC-T-200 at 13.

Test Year customer accounts expense of \$49,309.¹⁹⁹ Hawaii Water later updated this figure to \$41,790.²⁰⁰

The Consumer Advocate recommended eliminating the inflation adjustment applied to recorded expenses, which would result in a revised Test Year customer accounts expense of \$38,839.²⁰¹ In doing so, the Consumer Advocate noted that for the Uncollectible expense, Hawaii Water appeared to use the actual amounts for the 2020-2022 period, rather than a three-year average.²⁰²

In its Rebuttal Testimonies, Hawaii Water disagreed with the Consumer Advocate's exclusion of the CPI adjustments from the Test Year estimate.²⁰³

As noted above, as part of their settlement, the Parties agreed to the use of the CPI for Hawaii Water's inflation adjustment for certain expenses.²⁰⁴ Accordingly, the Parties

¹⁹⁹Application, Exhibit HWSC-T-200 at 13; see also, Exhibit HWSC 6.

²⁰⁰Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.19.

²⁰¹See CA Direct Testimonies, CA-T-2 at 37 and Exhibit CA-222.

²⁰²See CA Direct Testimonies, CA-T-2 at 37.

²⁰³Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 20.

²⁰⁴See Stipulation at 5-6.

stipulated to Test Year customer accounts expense of \$41,790 (i.e., Hawaii Water's updated Test Year estimate).²⁰⁵

Based on the record, the Commission finds reasonable the Parties' stipulated Test Year expense of \$41,790 for customer accounts.

15.

Taxes Other Than Income Tax

Taxes other than income tax ("TOTIT") consist of the Public Company Service Tax and the Public Utility Fee.²⁰⁶ In the Application, Hawaii Water proposed TOTIT of \$92,581 at present rates and \$129,182 at proposed rates for its Test Year.²⁰⁷ Hawaii Water later updated these figures to \$92,570 at present rates and \$124,344 at proposed rates.²⁰⁸

²⁰⁵See Stipulation, Exhibit A, Schedule 6.

²⁰⁶See Application, Exhibit HWSC 8.20. See also, HRS §§ 239-5 and 269-30.

²⁰⁷Application, Exhibit HWSC 6.

²⁰⁸Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.20.

In its Direct Testimonies, the Consumer Advocate estimated TOTIT of \$92,569 at present rates and \$119,616 at proposed rates.²⁰⁹

In its Rebuttal Testimonies, Hawaii Water notes that the Consumer Advocate may have inadvertently made an error by calculating the Public Utility Company Service Tax at a rate of 5.5585% instead of 5.885%.²¹⁰ Hawaii Water also implies that the Consumer Advocate may have used its estimate for TOTIT at present rates for TOTIT at proposed rates.²¹¹

Pursuant to their settlement negotiations, the Parties were able to resolve all issues. As part of their Stipulation, the Parties have agreed to TOTIT of \$92,570 at present rates and \$124,059 at proposed rates.²¹²

The Commission, based on the record, finds reasonable the Parties' stipulated amounts for TOTIT for the Test Year.

²⁰⁹See CA Direct Testimonies at 62 and Exhibits CA-201 and CA-224.

²¹⁰Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 14.

²¹¹Hawaii Water Rebuttal Testimonies, HWSC-TR-100 at 15. The Commission is not clear on the point Hawaii Water attempts to make here, as review of the Consumer Advocate's Exhibit CA-201 reflects different estimates for TOTIT at present and proposed rates. See CA Direct Testimonies, Exhibit CA-201.

²¹²See Stipulation, Exhibit A, Schedule 6.

Depreciation

In the Application, Hawaii Water proposed using group depreciation for its plant, property, and equipment that was previously approved in its last rate case.²¹³ In support, Hawaii Water states that the application of group depreciation rates “allows for uniform depreciation for groups of similar property instead of performing extensive depreciation calculations on an item-by-item basis.”²¹⁴ For several utility accounts, no group depreciation rate was previously approved or developed, including intangibles, miscellaneous equipment, communication equipment, other miscellaneous equipment, and collection sewers gravity.²¹⁵ Hawaii Water proposes to convert the useful life of the assets in these accounts into depreciation rates, with the exception of collection sewers gravity.²¹⁶ Since special collecting structures is a similar asset to collection sewer gravity, Hawaii Water proposes to use the same depreciation rate.²¹⁷

²¹³Application, Exhibit HWSC-T-100 at 9 (citing Docket No. 2015-0236, Proposed Decision and Order No. 38422, filed on September 15, 2017) (“D&O 34822”).

²¹⁴Application, Exhibit HWSC-T-100 at 9.

²¹⁵Application, Exhibit HWSC-T-100 at 9.

²¹⁶Application, Exhibit HWSC-T-100 at 9.

²¹⁷Application, Exhibit HWSC-T-100 at 9.

Hawaii Water notes that, in general, depreciation expense is calculated by multiplying the prior year's ending plant balance by the group depreciation rate.²¹⁸ In the Application, Hawaii Water proposed a Test Year depreciation expense of \$259,672,²¹⁹ which it later updated to \$259,339.²²⁰

The Consumer Advocate accepted Hawaii Water's updated Test Year depreciation expense.²²¹

In its Rebuttal Testimonies, Hawaii Water noted that it appeared that the Parties were in agreement with the methodology to calculate average depreciation reserve.²²² However, as discussed in Section III.E.1 below, Hawaii Water's Rebuttal Testimonies proposed an additional \$109,073 in plant in service, which changed the total average depreciation reserve from the

²¹⁸Application, Exhibit HWSC-T-100 at 10.

²¹⁹Application, Exhibit HWSC 6, Exhibit HWSC 7.4.

²²⁰Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 7.4.

²²¹CA Direct Testimonies, CA-T-2 at 39 (although the Consumer Advocate referenced "\$259,338" instead of \$259,339, the Commission assumes this minor discrepancy is either a typographical error or due to rounding).

²²²See Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 6.

Consumer Advocate's recommendation.²²³ As a result, Hawaii Water proposed a revised Test Year depreciation expense of \$264,690.²²⁴

As a result of settlement negotiations, the Parties agreed to include certain projects that totaled \$103,557 and allocated plant of \$3,576,²²⁵ which resulted in a stipulated depreciation expense of \$264,544.²²⁶

The Commission observes that neither the Consumer Advocate's Direct Testimonies nor the Stipulation expressly addressed Hawaii Water's proposals regarding depreciation rates for those asset categories that did not have existing group depreciation rates (i.e., intangibles, miscellaneous equipment, communication equipment, other miscellaneous equipment, and collection sewers gravity). However, taking into account that the Consumer Advocate did not raise an issue with these proposals in its Direct Testimonies and accepted Hawaii Water's updated Test Year depreciation rate and that the Stipulation purports to address all issues, the Commission concludes that the Consumer Advocate also does not object to this proposed treatment.

²²³See Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 6.

²²⁴Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 7. See also, id. Exhibit HWSC 6 (Rebuttal).

²²⁵Stipulation at 5.

²²⁶See Stipulation, Exhibit A, Schedule 6.

The Commission, based on the record, finds reasonable the Parties' stipulated Test Year depreciation expense of \$264,544.

17.

Income Taxes

In the Application, Hawaii Water states:

Federal income taxes at present and proposed rates were calculated using the 21% corporate rate, net of the effective Hawaii State Income Tax rate since state income tax is a deduction from federal tax. State income tax at present and proposed rates were calculated using the corporate Hawaii State Income Tax rate of 6.4%. State income tax expense was reduced by the test years amortized expense for the Hawaii Capital Goods Excise Tax Credit ("HCGETC"). Book depreciation was used as deductions for both federal and state income taxes. The difference between book and federal tax depreciation is reflected in rate base as deferred taxes.²²⁷

Based on the above, Hawaii Water estimated total federal and state income taxes at (\$78,347) at present rates and \$69,618 at proposed rates.²²⁸ Hawaii Water later updated these figures to (\$32,558) at present rates and \$96,965 at proposed rates.²²⁹

²²⁷Application, Exhibit HWSC-T-100 at 10.

²²⁸Application, Exhibits HWSC 6 and 8.21.

²²⁹Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibits HWSC 6 and 8.21.

In its Direct Testimonies, the Consumer Advocate utilized Hawaii Water's methodology, but arrived at different estimates of (\$22,246) at present rates and \$89,214 at proposed rates.²³⁰

In its Rebuttal Testimonies, Hawaii Water noted that the Consumer Advocate agreed with its methodology for determining income tax expense, "but[,] since income tax is a function of revenues, part of the result is likely due to a difference in [our estimated] revenues for the Test Year."²³¹ Hawaii Water submits that the Commission should accept its methodology and states that it will use this methodology to determine final proposed rates revenues.²³²

Pursuant to their settlement negotiations, the Parties were able to resolve all issues. As part of their Stipulation, the Parties have agreed to a Test Year income tax expense of (\$29,454) at present rates and \$98,981 at proposed rates.²³³

The Commission, based on the record, finds reasonable the Parties' stipulated Test Year income tax expenses.

²³⁰See CA Direct Testimonies, CA-T-2 at 39-40 and Exhibits CA-201 and CA-225.

²³¹Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 16.

²³²Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 16-17.

²³³Stipulation, Exhibit A, Schedule 6. See also, id., Exhibit A, Schedule 8.21.

E.

Rate Base

Hawaii Water proposes the use of an average rate base for its Test Year rate base,²³⁴ which is consistent with the Commission's past practice.²³⁵ Hawaii Water states that its rate base consists of "plant in service with deductions for accumulated depreciation reserve, contributions in aid of construction ('CIAC'), deferred income taxes, unamortized [Hawaii Capital Goods Excise Tax Credit ("HCGETC")], net salvage adjustment, and the [TCJA] deferred tax adjustment."²³⁶ There are also additions to Hawaii Water's Test Year rate base for working capital and a proration of Hawaii Water General Office and Maui Operations rate base.²³⁷

1.

Plant in Service

Plant in service reflects the investments by Hawaii Water in infrastructure, equipment, and related costs to

²³⁴See Application, Exhibit HWSC-T-100 at 11.

²³⁵See e.g., Docket No. 2021-0005, Decision and Order No. 38602, filed on September 12, 2022, at 70.

²³⁶Application, Exhibit HWSC-T-100 at 11.

²³⁷Application, Exhibit HWSC-T-100 at 11.

provide its wastewater treatment services.²³⁸ In the Application, Hawaii Water proposed an average plant in service balance for the Test Year of \$10,003,070, based on estimates for plant in service balances at the beginning and end of the Test Year.²³⁹ Hawaii Water later updated this figure to \$10,009,684 in response to CA-IR-1.²⁴⁰

Subsequently, in response to the Consumer Advocate's "CA Technical Conference discovery number 25," Hawaii Water requested to update its plant addition balance again by \$105,797 for plant additions that are expected to be placed into service by the end of 2023 (i.e., the Test Year).²⁴¹ The Consumer Advocate opposed these late additions, stating that "[Hawaii Water] did not provide any information why the plant additions increased by \$105,797, nor provided any reasoning for the need of these additional plant additions."²⁴² As a result, the Consumer Advocate supported the updated plant in service estimates provided by Hawaii Water in response to CA-IR-1.²⁴³

²³⁸See Application, Exhibit HWSC 7.1 for a list of assets HWSC proposed to be included in the Test Year.

²³⁹See Application, Exhibit HWSC 7.

²⁴⁰See Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibit HWSC 7.

²⁴¹See CA Direct Testimonies, CA-T-2 at 10.

²⁴²CA Direct Testimonies, CA-T-2 at 10.

²⁴³See CA Direct Testimonies, Exhibit CA-204.

In its Rebuttal Testimonies, Hawaii Water disagreed with the removal of the additional projects, contending "Hawaii Water has a non-specific budget that is meant to address unforeseen projects[,]” and that “[t]he projects completed between the Application and the Consumer Advocate’s direct testimony fall the non-specific category.”²⁴⁴ Hawaii Water maintains that “the total additional 20 projects in question have been or will be placed in service before the end of the Test Year.”²⁴⁵

During settlement negotiations, Hawaii Water provided additional information that allowed the Consumer Advocate to verify additional plant in service amounts of \$103,557 and allocated plant of \$3,576 that was placed in service and is used and useful.²⁴⁶ As a result, the Parties stipulate to an average plant in service balance of \$10,042,770 for the Test Year.²⁴⁷

Based on the record, the Commission finds the stipulated average plant in service balance of \$10,042,770 reasonable.

²⁴⁴Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 5.

²⁴⁵Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 5. See also, id., HWSC RT-300 and Exhibit HWSC-RT-301.

²⁴⁶Stipulation at 5 and Parties’ Proposed D&O at 41.

²⁴⁷Stipulation at 5 and Exhibit A, Schedule 7.

2.

Accumulated Depreciation

In the Application, Hawaii Water states that its Test Year accumulated depreciation reserve was determined by taking the recorded accumulated depreciation reserve balance as of December 31, 2021 and then adding depreciation accruals through each subsequent year.²⁴⁸ Hawaii Water then took the end-of-year reserve balances for December 31, 2022, and December 31, 2023 (i.e., a period encompassing the Test Year) and averaged the balances to reach its Test Year balance of \$3,443,889.²⁴⁹ Hawaii Water later updated this figure to \$2,333,241.²⁵⁰

In its Direct Testimonies, the Consumer Advocate accepted Hawaii Water's updated average depreciation reserve balance of \$2,333,242.²⁵¹

In its Rebuttal Testimonies, Hawaii Water construed the Consumer Advocate's position as an agreement with Hawaii Water's methodology of calculating average depreciation reserve, but noted

²⁴⁸See Application, Exhibit HWSC-T-100 at 12. See also, id. Exhibit HWSC 7.3.

²⁴⁹See Application, Exhibit HWSC 7.

²⁵⁰See Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibit HWSC 7.

²⁵¹CA Direct Testimonies, CA-T-2 at 11. The Commission attributes the slight discrepancy in amount to rounding.

that the Consumer Advocate's agreed-upon reserve balance did not account for the \$109,073 in additional plant in service that Hawaii Water had proposed.²⁵² Hawaii Water thus recommended a revised average accumulated depreciation reserve balance of \$2,298,216 for the Test Year.²⁵³

As discussed above, during settlement discussions, upon reviewing additional support provided by Hawaii Water, the Consumer Advocate agreed to include certain projects that totaled \$103,557 and allocated plant of \$3,576 in Hawaii Water's plant in service.²⁵⁴ As a result, the Parties stipulated to an average accumulated depreciation reserve balance of \$2,297,888 for the Test Year.²⁵⁵

Based upon its review of the record, the Commission finds the stipulated Test Year average accumulated depreciation reserve balance of \$2,297,888 reasonable.

²⁵²Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 6.

²⁵³Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 7. See also, id. Exhibit HWSC 7 (Rebuttal).

²⁵⁴See Stipulation at 5.

²⁵⁵See Stipulation, Exhibit A, Schedule 7.

Accumulated Deferred Income Taxes

As explained by Hawaii Water, pursuant to federal income tax laws:

. . . [S]tate regulatory commissions calculate provision for federal income taxes at book rates, and then allow the utility to record the tax difference between book and federal and state depreciation as adjustments to rate base. For the test year, deferred income taxes were estimated based on the recent recorded accruals and forecasts for the new plant in the test year. Hawaii Water is including re-measured amounts based on the outcome of the TCJA. Hawaii Water proposes to include a deferred tax asset in rate base as a reduction to its deferred income tax liabilities.²⁵⁶

In the Application, Hawaii Water proposed accumulated deferred income tax ("ADIT") average balances of \$341,591 for federal income taxes and \$60,103 for state income taxes.²⁵⁷ Hawaii Water later updated these figures to \$341,381 for the Test Year average balance for federal ADIT and \$58,571 for the Test Year average balance for state ADIT.²⁵⁸

²⁵⁶Application, Exhibit HWSC-T-100 at 13-14.

²⁵⁷Application, Exhibit HWSC 7; see also, id. Exhibits HWSC 7.10 thru 7.13.

²⁵⁸See Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibit HWSC 7.

In its Direct Testimonies, the Consumer Advocate did not recommend any changes to Hawaii Water's ADIT Test Year balances.²⁵⁹

In its Rebuttal Testimonies, Hawaii Water asserted that, in its supplemental response to CA-IR-47, Hawaii Water identified a few updates that resulted in a minor increase to the refundable excess deferred tax liabilities ("DTL") from the TCJA.²⁶⁰ As a result, Hawaii Water revised its federal and state Test Year ADIT average balances to \$340,966 and 58,536, respectively.²⁶¹

This matter is not expressly addressed in the Stipulation, but the Parties have agreed that the Stipulation resolves all issues. The Commission further notes that the Parties have included a revised exhibit that provides for Test Year average balances of \$341,276 for federal ADIT and \$58,538 for state ADIT.²⁶² The Commission construes this as reflecting the Parties' agreement on this issue.

Upon review of the record, the Commission finds the foregoing stipulated Test Year ADIT balances reasonable.

²⁵⁹CA Direct Testimonies, CA-T-2 at 14.

²⁶⁰See Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 12-13 (citing Hawaii Water Supplemental Response to CA-IR-47).

²⁶¹See Hawaii Water Rebuttal Testimonies, Exhibit HWSC 7 (Rebuttal).

²⁶²See Stipulation, Exhibit A, Schedule 7.

4.

Unamortized Hawaii Capital Goods Excise Tax Credit

As noted above, Hawaii Water's income tax is reduced by the HCGETC.²⁶³ The HCGETC for the Test Year is amortized over a future period, and the annual amortized amount is deducted from the Test Year income tax expense and the unamortized balance is deducted from the Test Year rate base. This reflects the benefit of the HCGETC enjoyed by Hawaii Water, as it reduces its income tax liabilities and provides it with additional funds to invest in its plant.

In the Application, Hawaii Water proposed an average balance for its unamortized HCGETC of \$223,058.²⁶⁴ Hawaii Water later updated this figure to \$222,945.²⁶⁵

In its Direct Testimonies, the Consumer Advocate accepted this balance.²⁶⁶

In its Rebuttal Testimonies, Hawaii Water construed the Consumer Advocate's position as an agreement with Hawaii Water's methodology of calculating the unamortized HCGETC balance,

²⁶³See Application, Exhibit HWSC-T-100 at 10. See also, HRS § 235-110.7.

²⁶⁴See Application, Exhibit HWSC 7.

²⁶⁵See Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing Exhibit HWSC 7.

²⁶⁶CA Direct Testimonies, CA-T-2 at 14.

but noted that the Consumer Advocate's agreed-upon balance did not account for the \$109,073 in additional plant in service that Hawaii Water had proposed.²⁶⁷ Hawaii Water thus recommended a revised average unamortized HCGETC balance of \$223,804 for the Test Year.²⁶⁸

As discussed above, during settlement discussions, upon reviewing additional support provided by Hawaii Water, the Consumer Advocate agreed to include certain projects that totaled \$103,557 and allocated plant of \$3,576 in Hawaii Water's plant in service.²⁶⁹ As a result, the Parties stipulated to an average unamortized HCGETC balance of \$223,799 for the Test Year.²⁷⁰

Upon review of the record, the Commission finds the foregoing stipulated Test Year unamortized HCGETC balance reasonable.

²⁶⁷Hawaii Water Rebuttal Testimonies, HWSC-TR-100 at 10.

²⁶⁸Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 10. See also, id. Exhibit HWSC 7

²⁶⁹See Stipulation at 5.

²⁷⁰See Stipulation, Exhibit A, Schedule 7.

Contribution in Aid of Construction

Contributions in Aid of Construction ("CIAC") represent funds for capital projects that are provided by third parties.²⁷¹ As these do not represent utility funds, they are deducted from rate base so that customers do not pay for the return on investments funded by third parties.²⁷² CIAC "are amortized over periods that would estimate the useful life of the assets they were used to acquire."²⁷³

In its Application, Hawaii Water proposed an average CIAC balance of \$2,936,971²⁷⁴ and an average accumulated amortization CIAC balance of \$1,229,721 for its Test Year.²⁷⁵ When Hawaii Water updated its Test Year figures in response to CA-IR-1, it did not make any changes to its Test Year CIAC or accumulated amortization of CIAC.²⁷⁶

²⁷¹See CA Direct Testimonies, CA-T-2 at 12.

²⁷²See CA Direct Testimonies, CA-T-2 at 12.

²⁷³Application, Exhibit HWSC-T-100 at 13.

²⁷⁴See Application, Exhibits HWSC 7 and 7.8.

²⁷⁵See Application, Exhibits HWSC 7 and 7.9.

²⁷⁶See Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibit HWSC 7.

In its Direct Testimonies, the Consumer Advocate accepted these balances,²⁷⁷ which Hawaii Water acknowledged.²⁷⁸ These amounts are reflected in the Parties' Stipulation.²⁷⁹

Based on the record, the Commission finds reasonable the Parties' stipulated average balances for CIAC and accumulated amortization of CIAC.

6.

Working Cash

Hawaii Water states in the Application, "[t]he Commission has established a policy of providing utilities an allowance for working capital, also known a working cash, in the determination of rate base."²⁸⁰ Hawaii Water calculated working cash using the "1/12th method," which "uses 1/12th of the annual operating expenses as a proxy for determining the amount of cash that is dedicated to utility service (paying bills prior to receiving customers revenues)."²⁸¹ In the Application,

²⁷⁷CA Direct Testimonies, CA-T-2 at 12.

²⁷⁸See Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 10-11.

²⁷⁹See Stipulation, Exhibit A, Schedule 7.

²⁸⁰Application, Exhibit HWSC-T-100 at 14.

²⁸¹Application, Exhibit HWSC-T-100 at 14.

Hawaii Water estimated working cash of \$105,718 for the Test Year.²⁸² Hawaii Water later updated this amount to \$89,987.²⁸³

In its Direct Testimonies, the Consumer Advocate agreed with the use of the 1/12th method, but because it had determined a different amount of Test Year operating expenses, calculated a Test Year working cash amount of \$86,689.²⁸⁴

In its Rebuttal Testimonies, due to adjustments to its proposed operating expenses, Hawaii Water proposed a revised Test Year working cash amount of \$89,996.²⁸⁵

Based on their settlement, the Parties stipulated to a working cash balance of \$88,458.²⁸⁶

Based on the record, the Commission finds reasonable the Parties' stipulated Test Year working cash amount.

²⁸²Application, Exhibit HWSC-T-100 at 14; see also, id. at Exhibit HWSC 7.

²⁸³See Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibit HWSC 7.

²⁸⁴CA Direct Testimonies, CA-T-2 at 15. See also, id. Exhibit CA-208.

²⁸⁵Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 11. See also, id. Exhibit HWSC 7.15 (Rebuttal).

²⁸⁶See Stipulation, Exhibit A, Schedule 7.

7.

Net Salvage Adjustment

As described by Hawaii Water:

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. In the most recent rate cases for [Kona Water Service Company] and [Kalaeloa Water Company], Hawaii Water and the Consumer Advocate agreed to use group depreciation on the condition that a net salvage adjustment be included in the rate base calculation. This adjustment was approved by the Commission in its decisions for the [Kona Water Service Company] and [Kalaeloa Water Company] rate cases.[] The same adjustment is being proposed for Hawaii Water in this case.²⁸⁷

In accordance with the above, Hawaii Water proposed a net salvage adjustment of \$7,484 for the Test Year.²⁸⁸ When Hawaii Water updated its Test Year figures in response to CA-IR-1, it did not make any changes to its proposed net salvage adjustment.²⁸⁹

²⁸⁷Application, Exhibit HWSC-T-100 at 13. (citing Docket No. 2021-0005, Decision and Order No. 38602, filed on September 12, 2022 ("D&O 38602"), at 74-76 (regarding Kalaeloa Water Company); and Docket No. 2018-0388, Decision and Order No. 37124, filed on May 1, 2020 ("D&O 37124"), at 133-136 (regarding Kona Water Service Company).

²⁸⁸See Application, Exhibit HWSC 7.

²⁸⁹See Hawaii Water Response to CA-IR-1, electronic Exhibit CA-IR-1, ca-ir-1 (2022_grc_rom_pukalani_(2022_update)).xlsx, providing updated Exhibit HWSC 7.

In its Direct Testimonies, the Consumer Advocate accepted this balance.²⁹⁰

In its Rebuttal Testimonies, Hawaii Water construed the Consumer Advocate's position as an agreement with Hawaii Water's methodology of calculating the net salvage adjustment, but noted that the Consumer Advocate's agreed-upon adjustment did not account for the \$109,073 in additional plant in service that Hawaii Water had proposed.²⁹¹ Hawaii Water thus recommended a revised net salvage adjustment of \$7,545 for the Test Year.²⁹²

As discussed above, during settlement discussions, upon reviewing additional support provided by Hawaii Water, the Consumer Advocate agreed to include certain projects that totaled \$103,557 and allocated plant of \$3,576 in Hawaii Water's plant in service.²⁹³ As a result, the Parties stipulated to a net salvage adjustment of \$7,544 for the Test Year.²⁹⁴

Based on the record, the Commission finds reasonable the Parties' stipulated Test Year net salvage adjustment.

²⁹⁰CA Direct Testimonies, CA-T-2 at 16.

²⁹¹Hawaii Water Rebuttal Testimonies, HWSC-TR-100 at 12.

²⁹²Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 13. See also, id. Exhibit HWSC 7

²⁹³See Stipulation at 5.

²⁹⁴See Stipulation, Exhibit A, Schedule 7.

F.

Rate of Return

In the Application, Hawaii Water requested an overall rate of return ("RoR") of 7.48% based on a 46.6% debt to 53.4% equity capital structure.²⁹⁵ This incorporates a 5.51% cost of debt, which is based on "the actual interest rate under the long-term note payable to Hawaii Water to CWSG," and a 9.20% return on equity ("ROE"), which is intended to maintain an overall 7.48% RoR to mimic the RoR approved by the Commission in its rate case for Kona Water Service Company (another subsidiary of CWSG).²⁹⁶ Hawaii Water maintains that "investors in CWSG expect consistency among CWSG's subsidiary companies with similar economic returns across operating areas," and notes that a 9.20% ROE is also CWSG's current approved ROE.²⁹⁷

In its Direct Testimonies, the Consumer Advocate recommended an overall RoR of 7.40%.²⁹⁸ This is based on the Consumer Advocate's acceptance of Hawaii Water's proposed capital structure of 46.60% debt and 53.40% common equity and long-term

²⁹⁵Application, Exhibit HWSC-T-100 at 15. See also, id. Exhibit HWSC 10.

²⁹⁶Application, Exhibit HWSC-T-100 at 15 (citing D&O 37124 at 147-150).

²⁹⁷Application, Exhibit HWSC-T-100 at 15, including n. 17.

²⁹⁸CA Direct Testimonies, CA-T-3 at 4.

debt cost of 5.51%, but adjusted ROE of 9.05%.²⁹⁹ In support, the Consumer Advocate notes that the California Public Utilities Commission ("CPUC") recently issued a decision on July 3, 2023, regarding companies within the CWSG that set an ROE at 9.05%.³⁰⁰ The Consumer Advocate further states "[Hawaii Water] did not submit any analysis using traditional ROE models. In the absence of analysis, [the Consumer Advocate] recommend[s] following the principle followed by [Hawaii Water] in making its ROE request, which is to set its ROE at the value approved for [CWSG]."³⁰¹ Regarding long-term debt, the Consumer Advocate noted that while the CPUC set the cost of debt for CWSG at 4.23%, that decision reflects long-term debt transactions through 2024. Hawaii Water does not have any added anticipated debt transactions through 2024, and thus, relying on the embedded cost of long-term debt in the existing note between Hawaii Water and CWSG seems reasonable.³⁰²

²⁹⁹CA Direct Testimonies, CA-T-3 at 6-9.

³⁰⁰CA Direct Testimonies, CA-T-3 at 6 (citing "Decision Fixing Cost of Capital for Calendar Years 2022, 2023, and 2024 for California-American Water Company, California Water Service Company, Golden State Water Company and San Jose Water Company," California Public Utilities Commission, Decision 23-06-025, issued July 3, 2023, at 3).

³⁰¹CA Direct Testimonies, CA-T-3 at 6.

³⁰²CA Direct Testimonies, CA-T-3 at 8.

Relatedly, the Consumer Advocate notes that CPUC did not alter CWSG's capital structure.³⁰³

In its Rebuttal Testimonies, Hawaii Water explains that the recent CPUC decision retained the Water Cost of Capital Mechanism ("WCCM") for its subsidiaries, "which automatically adjusts the cost of capital when fluctuations in capital markets occur between the cost of capital applications for CPUC regulated water utilities[.]"³⁰⁴ Hawaii Water clarifies that on August 4, 2023, the CPUC approved a request based on the WCCM that resulted in a higher ROE of 9.57%.³⁰⁵ As a result, Hawaii Water updated its proposal, retaining a capital structure of 46.60% debt and 53.40% common equity, but increasing the ROE to 9.57% and decreasing the debt to 5.42%, with a resulting RoR of 7.64%.³⁰⁶

As part of this global settlement, the Parties stipulated to an overall RoR of 7.51%, which incorporates an ROE of 9.25%, cost of long-term debt of 5.51%, and a capital structure of 46.60% debt and 53.40% common equity.³⁰⁷

³⁰³CA Direct Testimonies, CA-T-3 at 9.

³⁰⁴Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 19.

³⁰⁵Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 21.

³⁰⁶Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 21.

³⁰⁷Stipulation at 7 and Exhibit A, Schedule 6.

Based on the record, including the global nature of the Stipulation, the Commission finds this RoR, and underlying capital structure, reasonable.

G.

Phase-in Period

In the Application, Hawaii Water proposed phasing-in its requested rate increase of 39.5% over two years in recognition of the burden this would place on its customers.³⁰⁸ In an effort to further “mitigate rate shock,” Hawaii Water proposed increasing rates by a smaller percentage in the first year, such that the phase-in of the rate increase would occur at 20% of the total requested increase in the first year, with the remainder occurring in the second year.³⁰⁹

In its Direct Testimonies, the Consumer Advocate acknowledged Hawaii Water’s proposed two-step phased increase, but suggested a three-step phased in approach “to better mitigate any increase to allow [Hawaii Water’s] customers to better accommodate the increase and to balance the consumers’ interests with the Company’s requested increase.”³¹⁰

³⁰⁸Application, Exhibit HWSC-T-100 at 16.

³⁰⁹Application, Exhibit HWSC-T-100 at 16. See also, id. Exhibit HWSC 11.

³¹⁰CA Direct Testimonies, CA-T-4 at 6.

In its Rebuttal Testimonies, Hawaii Water noted that its updated revenue increase was less than what it had originally requested in the Application, but that it was still proposing to only phase in 20% of that increase in the first year.³¹¹ Hawaii Water maintained that this will represent a revenue shortfall, and that while Hawaii Water is willing to accommodate a two-year phase-in to mitigate impacts to customers, a three-year phase-in "does not provide the proper balance."³¹²

As part of their settlement, the Parties have stipulated to a two-year phase-in period for the rate increase.³¹³

Upon review of the record, the Commission finds the stipulated two-year phase-in of the rate increase reasonable. In doing so, the Commission observes that the final rate increase is less than what was originally proposed in the Application and that a two-year phase-in will help to alleviate the impact of the rate increase and balances the competing need by Hawaii Water to recover its approved operational costs.

³¹¹Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 23.

³¹²Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 23-24.

³¹³See Stipulation at 7.

H.

Rate Design

In the Application, Hawaii Water proposed changes to its existing rate design. First, Hawaii Water proposed to adjust the allocation of revenue requirement between its two major customer classes (Residential and Commercial), away from the existing 51.58% (Residential) to 48.42% (Commercial) split to a 67% (Residential) and 33% (Commercial) split.³¹⁴ Hawaii Water explained that “[its] current rate design no longer accurately depicts this customer allocation since one of [its] major commercial customers, Kamehameha Schools, installed an irrigation meter which has greatly reduced the commercial billed sewer flows.”³¹⁵

Hawaii Water proposes to charge its Residential customers a fixed monthly rate, based on the adjusted allocation percentage of Hawaii Water’s revenue requirement after subtracting Power Cost Charge, effluent, and Public Authority revenue. This amount is then divided by the number of Residential customers in the Test Year and again by 12 months to reach a fixed monthly charge.³¹⁶ Commercial customers will be charged a fixed rate and

³¹⁴Application, Exhibit HWSC-T-100 at 18.

³¹⁵Application, Exhibit HWSC-T-100 at 18.

³¹⁶See Application, Exhibit HWSC-T-100 at 19-20.

a volumetric rate. The fixed rate is based on the allocated percentage of revenue requirement for the Customer class and then determined by customers' water main size. The volumetric rate is based on consumption.³¹⁷ Hawaii Water also has one Public Authority customer (the Hannibal Tavares Community Center), which Hawaii Water proposes to charge a fixed monthly rate.³¹⁸ (Hawaii Water appears to have two sub-classes for its Public Authority customer: "Government/Education" and "Government/Recreation." Hawaii Water proposes charging "Government/Recreation" a flat monthly rate, but proposes charging "Government/Education" as if it were a Commercial customer.)³¹⁹

In its Direct Testimony, the Consumer Advocate accepted Hawaii Water's rate design; however, as discussed above, recommended a three-year phase-in period.³²⁰

In its Rebuttal Testimonies, Hawaii Water acknowledged the Consumer Advocate's agreement on its rate design,³²¹ but, as discussed above, disagreed with the Consumer Advocate's proposal for a three-year phase-in.³²²

³¹⁷See Application, Exhibit HWSC-T-100 at 20-21.

³¹⁸See Application, Exhibit HWSC-T-100 at 19.

³¹⁹See Application at 8.

³²⁰See CA Direct Testimonies, CA-T-4 at 6.

³²¹Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 24.

³²²Hawaii Water Rebuttal Testimonies, HWSC-RT-100 at 23.

The Stipulation does not expressly address rate design; however, the Commission notes that in the Parties' Proposed D&O, they provide the following table with the preface: "Based on their agreed-upon settlement numbers, the Parties stipulated to the following rate design:"³²³

Monthly Sewer Fees	Present Rates	Rate Phase-in			
		Year 1		Year 2	
Residential	\$ 79.08	\$87.29	10.4%	\$97.40	11.6%
Commercial					
Fixed Charge by meter size					
5/8"	\$ 16.12	\$ 18.86	17.0%	\$ 21.60	14.5%
3/4"	\$ 16.12	\$ 18.86	17.0%	\$ 21.60	14.5%
1"	\$ 32.24	\$ 37.72	17.0%	\$ 43.21	14.5%
1 1/2"	\$ 48.36	\$ 56.59	17.0%	\$ 64.81	14.5%
2"	\$ 80.60	\$ 94.31	17.0%	\$ 108.02	14.5%
3"	\$ 274.05	\$ 320.65	17.0%	\$ 367.26	14.5%
4"	\$ 274.05	\$ 320.65	17.0%	\$ 367.26	14.5%
6"	\$ 274.05	\$ 320.65	17.0%	\$ 367.26	14.5%
Quantity Rate	\$ 15.2574	\$ 23.1114	51.5%	\$ 29.7539	28.7%
Public Authority					
Government/Education		Same as Commercial			
Government/Recreation	\$ 288.38	\$ 337.43	17.0%	\$386.48	14.5%
Effluent	\$ 0.55	\$ 0.55	0.0%	\$ 0.55	0.0%

As this was jointly submitted by the Parties, the Commission assumes that this reflects their agreement on rate design. Further, the Commission notes that this proposed rate design takes into account a two-year phase-in period, which the Commission has approved, as discussed above.

Upon reviewing the record and taking into account the global nature of the Parties' Stipulation, the Commission finds

³²³Stipulation, Parties' Proposed D&O at 51.

the above stipulated rate design reasonable. However, the Commission observes that Hawaii Water did not perform a Cost-of-Service Study ("COSS") as part of the Application. Rather, Hawaii Water appears to have relied upon the results of the COSS from its last rate case and then revised the allocation between customer classes due, primarily, to the installation of an irrigation meter for Kamehameha Schools. Although the Commission finds this acceptable based on the unique circumstances of this rate case, it instructs Hawaii Water to prepare a COSS as part of its next request for a general rate increase.

I.

Proposed Tariff Revisions

In the Application, Hawaii Water sought approval of tariff revisions to provide for: (1) a surcredit to refund over-collected income tax expenses related to the TCJA; and (2) a surcharge to collect COVID deferred costs.³²⁴

In its Rebuttal Testimonies, Hawaii Water also sought approval to change the definition of customer and company sewage system. Each proposed revision is discussed separately below. Redlined and clean copies of all proposed tariff changes were also attached as Exhibits B and C to the Parties' Proposed D&O.

³²⁴See HWSC-T-100 at 15-16.

1.

TCJA Surcredit

In the Application, Hawaii Water proposed a tariff revision to establish a surcredit to refund to customers income tax expenses that it over-collected during 2018 thru 2023 as a result of the changes from the TCJA (i.e., the TCJA Surcredit).³²⁵ In total, Hawaii Water proposes to return \$129,416 over a 72-month period in the form of a monthly surcredit of \$1.78.³²⁶ This would reflect a TCJA Surcredit period that matches the period over over-collection (i.e., six years).³²⁷ The TCJA Surcredit would not be part of Hawaii Water's revenue requirement.³²⁸

The Consumer Advocate did not address Hawaii Water's proposed TCJA Surcredit in its Direct Testimonies. However, in the Stipulation, the Parties state that "[t]he Consumer Advocate confirmed during settlement negotiations that it accepts the proposed TCJA surcredit."³²⁹

³²⁵See Application, Exhibit HWSC-T-100 at 15; and Hawaii Water Response to CA-IR-31.a.

³²⁶See Application, Exhibit HWSC-T-100 at 15 and Exhibit HWSC-T-107.

³²⁷See Hawaii Water Response to CA-IR-31.c.

³²⁸See Hawaii Water Response to CA-IR-48.

³²⁹Stipulation at 3.

Based on its review of the entire record, including the Stipulation, the Commission finds reasonable this stipulated change to the tariff. In doing so, the Commission observes that the TCJA Surcredit will be refunded over the same period it was over-collected. Further, as the Surcredit is not included in Hawaii Water's revenue requirement, presumably, once the 72-month surcredit period has concluded, the TCJA Surcredit can be terminated without any impact to base rates. However, the Commission will require Hawaii Water to report to the Commission when the TCJA Surcredit period has ended and confirm that the over-collected amounts have been fully refunded as proposed. Hawaii Water shall file this report in this docket.

2.

COVID Surcharge

In the Application, Hawaii Water also proposed a tariff revision to establish a monthly surcharge to collect deferred expenses related to certain COVID-19 expenses that it had recorded as a regulatory asset (i.e., the COVID Surcharge).³³⁰ Hawaii Water incurred applicable COVID-19 expenses of \$42,069 in 2020 thru 2021; Hawaii Water proposes to collect them from customers over a

³³⁰Application, Exhibit HWSC-T-100 at 16; see also Docket No. 2020-0091, Decision and Order No. 37291, filed on August 31, 2020 ("D&O 37291") (authorizing Hawaii Water to defer COVID-19 expenses).

12-month period in the form of a monthly surcharge of \$3.47.³³¹ Hawaii Water states that it determined that its proposed 12-month surcharge period is intended to balance cost recovery and rate shock to customers. Hawaii Water estimates that if the surcharge were collected all at once, it would result in a \$41.64 surcharge.³³² Similar to the TCJA Surcredit, the COVID Surcharge is not included as part of Hawaii Water's revenue requirement.³³³

Hawaii Water explains that it did not include COVID-19-related expenses for 2022, as nearly all were payroll related and "payroll is estimated using future projections, not historical averages."³³⁴ Hawaii Water further clarifies that there were no COVID-19 recorded expenses for 2023.³³⁵

The Consumer Advocate did not address Hawaii Water's proposed COVID Surcharge in its Direct Testimonies. However, in the Stipulation, the Parties state that "[d]uring settlement negotiations, the Consumer Advocate confirmed during settlement

³³¹Application, Exhibit HWSC-T-100 at 16 and Exhibit HWSC-T-108.

³³²Hawaii Water Response to CA-IR-39.c.

³³³See Hawaii Water Response to CA-IR-49.

³³⁴Hawaii Water Response to CA-IR-39.a.

³³⁵Hawaii Water Response to CA-IR-39.a.

negotiations that it does not object to this [COVID Surcharge] tariff change.”³³⁶

Based on its review of the entire record, including the Stipulation, the Commission finds reasonable this stipulated change to the tariff. In doing so, the Commission observes that it previously authorized Hawaii Water to establish a regulatory asset to record certain expenses related to COVID-19.³³⁷ As Hawaii Water is evidently no longer recording COVID-19 expenses,³³⁸ it is appropriate to consider a mechanism for Hawaii Water to collect those deferred expenses. The COVID Surcharge represents a reasonable balance that offers Hawaii Water timely recovery of these deferred expenses without unduly burdening customers. The Commission also notes that this monthly surcharge will be partially offset by the TCJA Surcredit; while not related, the fact that they will be implemented concurrently will help mitigate impacts to customers. Further, as the COVID Surcharge is not included in Hawaii Water’s revenue requirement, presumably, once the 12-month surcharge period has concluded, the COVID Surcharge can be terminated without any impact to base rates. However, the Commission will require Hawaii Water to report

³³⁶Stipulation at 4.

³³⁷See D&O 37291.

³³⁸See Hawaii Water Response to CA-IR-39.a (“There were no COVID-19 recorded expenses in 2023.”).

to the Commission when the COVID Surcharge period has ended and confirm that the surcharge has been terminated. Hawaii Water shall file this report in this docket.

3.

Definition of Customer and Company Sewage System

In its Direct Testimonies, the Consumer Advocate noted that at the public hearing:

Besides the customers' concerns with the proposed rate increase, there was significant discussion related to a matter of how [Hawaii Water's] existing tariff appears to be vague as it relates to "laterals" and who is responsible for the maintenance and repairs for these laterals.³³⁹

The Consumer Advocate noted that this issue may be related to the following tariff language:

Service Connection. When the application for sewer service and a Service Connection has been approved, the Service Connection shall be installed by the Customer at Customer's own expense. Upon installation, the Service Connection shall thereafter be and remain the sole property of the Company, with the Customer responsible for its maintenance and repair³⁴⁰

The Consumer Advocate further noted that "there is an identification and definition of customer's sewage system in [Hawaii Water's] existing tariff" that may be relevant:

³³⁹CA Direct Testimonies, CA-T-1 at 4.

³⁴⁰CA Direct Testimonies, CA-T-1 at 8 (ellipses in the original).

"Customer's Sewage System or Customer Sewage System" [sic] The sewer lines running from the drains **within the Customer's property** or located in an easement in favor of the Customer which receive and pass the Customer's sewage to the Company's Sewage System.³⁴¹

"Based on the above, this appears to establish that the customers' responsibilities end at the property line unless an easement was granted that might allow the customer to interconnect with the utility's sewage system."³⁴² As a result, the Consumer Advocate offered that this tariff language should be examined to determine whether a customer is responsible in situations where a service connection extends beyond their property line into an area over which they have no control.³⁴³

In its Supplemental Direct Testimony, the Consumer Advocate elaborated on this issue:

Absent evidence that clearly supports the conclusion that an easement is or easements are in place to grant customers control over the property necessary to maintain the lateral connections, there should not be an expectation that customers are responsible for infrastructure that is not within the customers' property lines and control. The expectation that a customer could easily address a maintenance or repair issue outside of their own property and that is not within their control is unreasonable.³⁴⁴

³⁴¹CA Direct Testimonies, CA-T-1 at 9 (emphasis in the original).

³⁴²CA Direct Testimonies, CA-T-1 at 9.

³⁴³CA Direct Testimonies, CA-T-1 at 9-10.

³⁴⁴CA Supplemental Testimonies, CA-ST-1 at 6.

The Consumer Advocate recommended that the Commission consider any such interpretation that requires customers to be responsible for repairs beyond their property line unreasonable, absent proof of an easement running in their favor, and urge Hawaii Water to modify its tariff to eliminate any vague or uncertain language.³⁴⁵

In its Rebuttal Testimonies, Hawaii Water recognized the concern that customers might have and acknowledged that it might be easier and possibly more cost effective on a project-by-project basis for Hawaii Water to be responsible for such repairs.³⁴⁶ As a result, Hawaii Water drafted proposed tariff language to make it clear, on a going forward basis, that Hawaii Water will be responsible for repairs beyond the customers' property line (revisions noted in ~~striketrough~~ and underline):³⁴⁷

"Customer's Sewage System or Customer Sewage System": The sewer lines running to and from the drains within and up to the Customer's property line that the Customer's property or located in an easement in favor of the Customer which receive and pass the discharge from waste and other drainage pipes ~~Customer's sewage~~ to the Company's Sewage System.

"Company's Sewage System": The system owned and operated by the Company, shall mean the main sewer

³⁴⁵CA Supplemental Testimonies, CA-ST-1 at 9-10.

³⁴⁶Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 21.

³⁴⁷Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 22-23. See also, id., Exhibits HWSC-RT-201 and HWSC-RT-202.

~~lines and facilities between the customers' property lines and the wastewater treatment plant including the sewer lines, pumps, holding ponds and other sewage disposal facilities on the outside of the Service Connection leading from the Customer's Sewage System to the Company's Sewage Treatment Plant. In this context, "outside of the Service Connection" means all parts of the system required to transport, process and dispose of sewage, save and except each Customer's Sewage System.~~

However, because Hawaii Water does not know the cost of taking on this responsibility since it has not been reflected in its historical costs and each sewer lateral repair is different, Hawaii Water proposed deferred accounting treatment of sewer lateral repair costs until the next general rate case.³⁴⁸ Hawaii Water asserted that, by the next general rate case, it would have historical data and be able to forecast the possible costs.³⁴⁹

In the Stipulation, the Parties state:

During settlement discussions, the Consumer Advocate confirmed that the proposed tariff language on the sewer lateral responsibility is acceptable. The Consumer Advocate also did not have any objection to Hawaii Water's request for deferred accounting treatment so long as it is used only for incremental non-labor expenses not already included in rates and any rate base costs incurred before the next general rate case is expected to be reflected in plant in service to be evaluated in the next general rate case.³⁵⁰

³⁴⁸Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 21-22.

³⁴⁹Hawaii Water Rebuttal Testimonies, HWSC-RT-200 at 22.

³⁵⁰Stipulation at 5.

Based on its review of the entire record, including the Stipulation, the Commission finds reasonable this stipulated change to the tariff and approves the deferred accounting treatment as described above. In doing so, the Commission observes that this should help address the concerns raised by members of the general public at the public hearing, as Hawaii Water has now clarified that it is responsible for its wastewater system beyond a customer's property line.

J.

Commission Approval

The Parties' stipulated rate increase, as set forth in the Stipulation, provides Hawaii Water with a reasonable opportunity to earn its 2023 Test Year revenue requirements of \$1,942,976. As noted above, the Parties' Stipulation involves compromises and mutual concessions by both sides on a number of issues. The Commission finds that the Parties' Stipulation, taken as a whole, appears just and reasonable, with the exception of the ambiguity regarding inclusion of Other Revenues in Hawaii Water's schedule of operations. As discussed above, the Commission is excluding it from Hawaii Water's schedule of operations to avoid confusion.

Accordingly, for purposes of this proceeding, the Commission partially approves the Parties' Stipulation

consistent with the terms of this Proposed Decision and Order. That being said, the Commission's partial approval of the Parties' Stipulation, or of the methodologies used herein, may not be cited as precedent by any parties in any future Commission proceeding.

IV.

SUMMARY OF FINDINGS AND CONCLUSIONS

The Commission finds and concludes:

1. Hawaii Water's 2023 Test Year revenues and expenses for its Pukalani Wastewater Division, as set forth in the results of operations schedule attached hereto as Exhibit A, are reasonable.

A. Hawaii Water is entitled to an increase of \$490,341 or approximately 34.0% over revenues at present rates for its Pukalani Wastewater Division.

B. The Commission will continue to require Hawaii Water to 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 PCC is in effect. Hawaii Water shall also continue to post its monthly Power Cost Charge Report on its website.

3. The Parties' stipulated rate design, as set forth herein, is reasonable.

A. As part of its next request for a general rate increase, Hawaii Water shall submit a COSS.

4. Hawaii Water's proposed changes to its Pukalani Wastewater Division Tariff No. 1, as set forth herein and Exhibits B and C attached hereto, are reasonable.

A. Hawaii Water shall file a report to the Commission when the TCJA Surcredit period has ended and confirm that the over-collected amounts have been fully refunded as proposed.

B. Hawaii Water shall file a report to the Commission in this docket when the COVID Surcharge period has ended and confirm that the surcharge has been terminated.

5. Hawaii Water shall promptly file its revised tariff sheets and rates schedules that implement the increases in rates and charges authorized by this final Decision and Order, with copies served upon the Consumer Advocate. Hawaii Water's revised tariff sheets and rate schedules shall take effect upon filing.

V.

ORDERS

THE COMMISSION ORDERS:

1. The Parties' Stipulation, filed on September 22, 2023, is approved, in part, consistent with the terms of this Proposed Decision and Order.

2. Hawaii Water may increase its rates and charges to produce a total annual revenue increase of \$493,180, or approximately 34.0% over revenues at present rates, as shown in Exhibit A, attached, based on a 2023 Test Year revenue requirement of \$1,942,976.

3. Hawaii Water shall continue to 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 PCC is in effect. Hawaii Water shall also continue to post its monthly Power Cost Charge Report on its website.

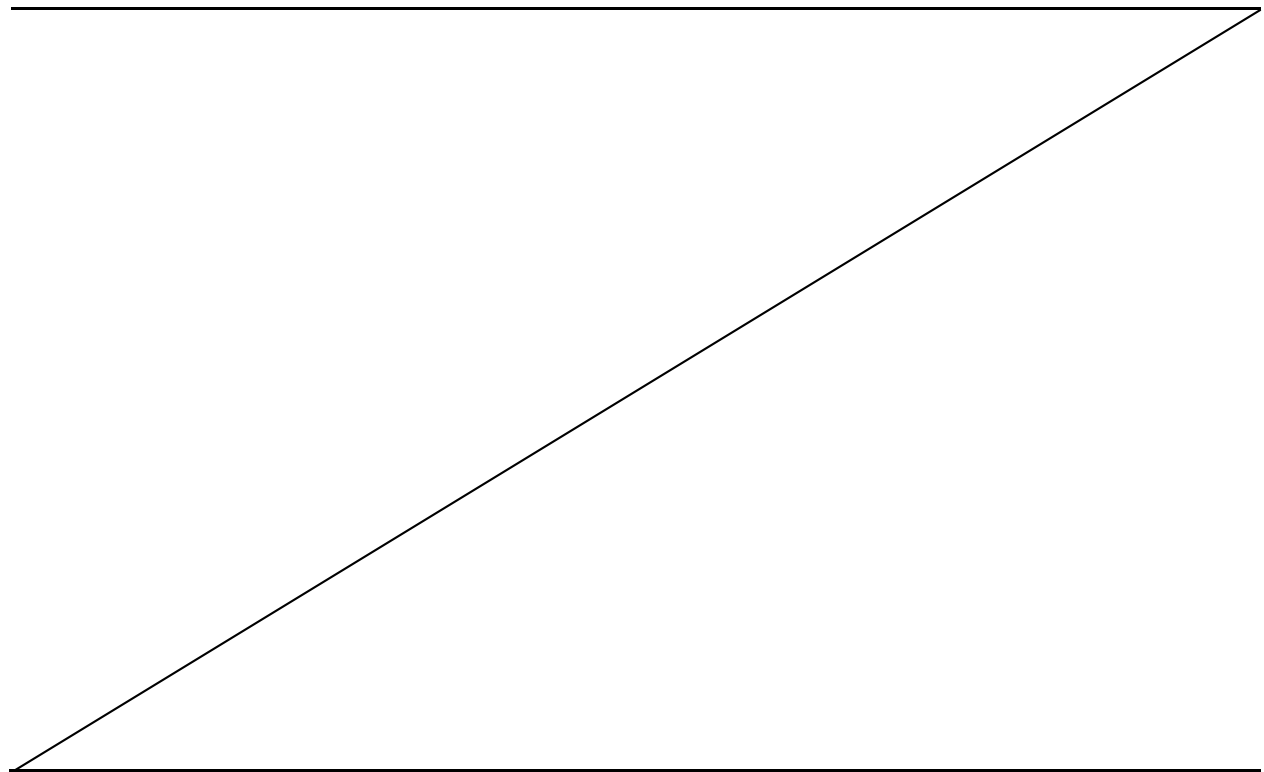
4. As part of its next request for a general rate increase, Hawaii Water shall prepare an updated COSS.

5. Hawaii Water shall file a report to the Commission when the TCJA Surcredit period has ended and confirm that the over-collected amounts have been fully refunded as proposed.

6. Hawaii Water file a report to the Commission in this docket when the COVID Surcharge period has ended and confirm that the surcharge has been terminated.

7. Hawaii Water shall promptly file its revised tariff sheets and rates schedules that implement the increases in rates and charges authorized by this final Decision and Order, with copies served upon the Consumer Advocate. Hawaii Water's revised tariff sheets and rate schedules shall take effect upon filing.

8. The failure to comply with any of the requirements noted in the ordering paragraphs above may constitute cause to void this final Decision and Order and may result in further regulatory action as authorized by State law.



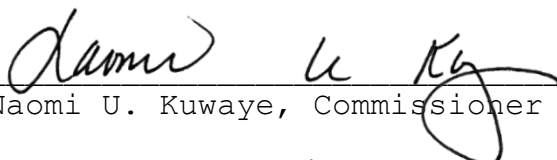
9. This docket is closed; however, Hawaii Water shall file its revised tariff sheets and any other reports required by this Decision and Order in this docket unless otherwise ordered by the Commission.

DONE at Honolulu, Hawaii OCTOBER 30, 2023.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 

Leodoloff R. Asuncion, Jr., Chair


By 

Naomi U. Kuwaye, Commissioner

By 

Colin A. Yost, Commissioner

APPROVED AS TO FORM:



Mark Kaetsu
Commission Counsel

2022-0186.ljk

Docket No. 2022-0186
Hawaii Water Service Company - Pukalani
Results of Operations
Test Year Ending December 31, 2023

Description	Present Rates	Additional Amount	Approved Rates at 7.51%	
<u>REVENUES</u>				
Residential	\$ 941,368	\$ 218,067	\$ 1,159,436	
Commercial	\$ 297,130	\$ 273,935	\$ 571,065	
Public Authority	\$ 3,461	\$ 1,177	\$ 4,638	
Effluent Rates	\$ 13	\$ -	\$ 13	
Power Charge Cost	\$ 207,824	\$ -	\$ 207,824	
 Total Operating Revenues	 \$ 1,449,796	 \$ 493,180	 \$ 1,942,976	 34.0%
<u>OPERATING EXPENSES</u>				
Labor Expenses	\$ 359,417	\$ -	\$ 359,417	
Fuel & Power	\$ 196,751	\$ -	\$ 196,751	
Chemicals	\$ 55,330	\$ -	\$ 55,330	
Materials & Supplies	\$ 23,075	\$ -	\$ 23,075	
Waste/Sludge Disposal	\$ 44,870	\$ -	\$ 44,870	
Affiliated Charges	\$ 54,259	\$ -	\$ 54,259	
Professional and Outside Services	\$ 6,859	\$ -	\$ 6,859	
Repairs & Maintenance	\$ 165,542	\$ -	\$ 165,542	
Rental Expenses	\$ 4,133	\$ -	\$ 4,133	
Insurance Expenses	\$ 9,267	\$ -	\$ 9,267	
Regulatory Expenses	\$ 62,269	\$ -	\$ 62,269	
General & Administrative Expenses	\$ 37,937	\$ -	\$ 37,937	
Customer Accounts Expense	\$ 41,790	\$ -	\$ 41,790	
Water Consumption License Fee	\$ -	\$ -	\$ -	
 Total O&M Expenses	 \$ 1,061,499	 \$ -	 \$ 1,061,499	
 Taxes Other Than Income	 \$ 92,570	 \$ 31,490	 \$ 124,059	
Depreciation	\$ 264,544	\$ -	\$ 264,544	
Amortization	\$ -	\$ -	\$ -	
Income Taxes	\$ (29,454)	\$ 128,435	\$ 98,981	
Diff. due to changing factors		\$ (18,776)	\$ (18,776)	
 Total Operating Expenses	 \$ 1,389,159	 \$ 141,149	 \$ 1,530,308	
 Operating Income	 \$ 60,638	 \$ 352,031	 \$ 412,668	
 Average Rate Base	 \$ 5,494,933	 \$ -	 \$ 5,494,933	
 Return on Rate Base	 1.10%		 7.51%	

Docket No. 2022-0186
Hawaii Water Service Company - Pukalani
Average Rate Base
Test Year Ending December 31, 2023

Description	At December 31, 2022	At December 31, 2023	Average
Plant in Service	\$ 9,822,531	\$ 10,263,009	\$ 10,042,770
Less: Accumulated Depreciation	\$ 2,117,871	\$ 2,477,906	\$ 2,297,888
<i>Net Plant-in Service</i>	<u>\$ 7,704,661</u>	<u>\$ 7,785,102</u>	<u>\$ 7,744,882</u>
Deduct:			
Contributions in Aid of Construction	\$ (2,936,971)	\$ (2,936,971)	\$ (2,936,971)
Accumulated Amortization of Contributions in Aid of Construction	\$ 1,181,975	\$ 1,277,466	\$ 1,229,721
Accumulated Deferred Taxes: Federal	\$ (337,071)	\$ (345,481)	\$ (341,276)
Accumulated Deferred Taxes: State	\$ (56,548)	\$ (60,527)	\$ (58,538)
Unamortized Hawaii Capital Goods Excise Tax Credit	\$ (224,065)	\$ (223,533)	\$ (223,799)
Net Salvage Adjustment	\$ -	\$ -	\$ (7,544)
Subtotal	<u>\$ (2,372,679)</u>	<u>\$ (2,289,046)</u>	<u>\$ (2,338,407)</u>
Add:			
Working Capital	\$ 88,458	\$ 88,458	\$ 88,458
	<u>\$ 88,458</u>	<u>\$ 88,458</u>	<u>\$ 88,458</u>
Subtotal	<u>\$ 5,420,440</u>	<u>\$ 5,584,514</u>	
Rate Base at Approved Rates			<u><u>\$ 5,464,933</u></u>

Docket No. 2022-0186
Hawaii Water Service Company - Pukalani
Taxes Other Than Income Tax
Test Year Ending December 31, 2023

Description	Revenues at Present Rates	Revenues at Approved Rates	Tax Rates	Taxes at Present Rates	Taxes at Approved Rates
<u>Revenue Taxes</u>					
Public Company Service Tax	\$ 1,449,796	\$ 1,942,976	5.885%	\$ 85,321	\$ 114,344
Public Utility Fee	\$ 1,449,796	\$ 1,942,976	0.500%	\$ 7,249	\$ 9,715
Total Taxes Other Than Income Taxes				<u>\$ 92,570</u>	<u>\$ 124,059</u>

Docket No. 2022-0186
Hawaii Water Service Company - Pukalani
Income Tax Expense
Test Year Ending December 31, 2023

Description	At Present Rates	At Approved Rates
Total Revenues	\$ 1,449,796	\$ 1,942,976
Total Operations & Maintenance Expenses	\$ 1,061,499	\$ 1,061,499
Depreciation	\$ 264,544	\$ 264,544
Amortization	\$ -	\$ -
Taxes Other than Income Taxes	\$ 92,570	\$ 124,059
Total Operating Expenses	\$ 1,418,613	\$ 1,450,102
Operating Income before Income Taxes	\$ 31,184	\$ 492,874
Interest Expenses	\$ 65,748	\$ 65,748
<i>State Taxable Income</i>	\$ (34,565)	\$ 427,125
<i>State Income Tax</i>		
	Tax Rates Less	
Less than \$25K	4.4000%	
Over \$25K, but less than \$100K	5.4000%	
Over \$100K	6.4000%	
Less Hawaii Capital Goods Excise Tax Credit	\$ (14,333)	\$ (14,333)
State Income Tax	\$ (28,095)	\$ 11,753
<i>Federal Taxable Income</i>	\$ (6,470)	\$ 415,372
<i>Federal Income Tax</i>		
Over \$1	21.0%	
Rounding	\$ (1,359)	\$ 87,228
Federal Income Tax	\$ (1,358)	\$ 87,228
Total Federal and State Income Taxes	\$ (29,453)	\$ 98,981
Effective Tax Rate	85.213%	23.174%
State	81.283%	2.752%
Federal	21.000%	21.000%

Docket No. 2022-0186
Hawaii Water Service Company - Pukalani
Working Cash
Test Year Ending December 31, 2023

Description	Amount
Labor Expenses	\$ 359,417
Fuel & Power	\$ 196,751
Chemicals	\$ 55,330
Materials & Supplies	\$ 23,075
Waste/Sludge Disposal	\$ 44,870
Affiliated Charges	\$ 54,259
Professional and Outside Services	\$ 6,859
Repairs & Maintenance	\$ 165,542
Rental Expenses	\$ 4,133
Insurance Expenses	\$ 9,267
Regulatory Expenses	\$ 62,269
General & Administrative Expenses	\$ 37,937
Customer Accounts Expenses	\$ 41,790
Water Consumption License Fee	\$ -
Subtotal	\$ 1,061,499
Working Cash Factor	12
Working Cash	<u>\$ 88,458</u>

CERTIFICATE OF SERVICE

The foregoing Decision and Order was served on the date it was uploaded to the Public Utilities Commission's Case and Document Management System and served through the Case and Document Management System's electronic Distribution List.

FILED

2023 Oct 30 P 16:02

PUBLIC UTILITIES

COMMISSION

F-296705

2022-0186

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