BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of	)	
	)	
HAWAII-AMERICAN WATER COMPANY	)	DOCKET NO. 2024-0038
	)	
For Approval of a General Rate Increase and Certain Tariff Changes for its Hawaii Kai, Mauna Lani and Waimea Districts.	)	

FINAL DECISION AND ORDER NO. 41833

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FINAL DECISION AND ORDER

By this final Decision and Order ("Decision & Order"), the Public Utilities Commission ("Commission"), pursuant to Hawaii Revised Statutes ("HRS") § 269-16(d), approves an increase of: (a) $594,290 for HAWAII-AMERICAN WATER COMPANY'S ("HAWC" or "Company") "Hawaii Kai" district, or approximately 4.93% from present rates, based on a total revenue requirement of $12,650,680 for the January 1, 2025 through December 31, 2025 test year ("2025 Test Year" or "Test Year"); (b) $765,100 for its "Mauna Lani" district, or approximately 55.53% from present rates, based on a total revenue requirement of $2,142,880 for the Test Year; and (c) $100,530 for its "Waimea" district, or approximately 16.91% from present rates, based on a total

revenue requirement of $695,030 for the Test Year.[1] In doing so, the Commission adopts the Stipulation of the Parties for Partial Settlement ("Stipulation") filed jointly on April 25, 2025, by HAWC and the Consumer Advocate, and it adjudicates the unsettled issue that was not resolved by the Parties through the Stipulation ("Outstanding Issue").[2] Further, the Commission utilizes the Proposed Decision and Order submitted by the Parties ("Proposed Decision and Order"), subject to certain modifications.[3]

This Decision and Order authorizes: (1) HAWC to increase the rates and charges assessed to its various customer classes in its three districts; and (2) the various changes to HAWC's tariffs for said districts, as described herein.

[1]The Parties are HAWC and the DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"), an ex officio party, pursuant to HRS § 269-51 and Hawaii Administrative Rules ("HAR") § 16-601-62(a). Additionally, LUALA'I AT PARKER RANCH HOMEOWNERS' ASSOCIATION ("HOA") was admitted as a Participant. Order No. 41550, "Granting, For Limited Purposes, Luala'i at Parker Ranch Homeowners Association's Motion to Participate," filed on February 13, 2025 ("Order No. 41550").

[2]"Stipulation of the Parties for Partial Settlement; Exhibits and Supporting Schedules; and Certificate of Service," filed on April 25, 2025.

[3]"Proposed Decision and Order," filed by HAWC on April 25, 2025.

I.

BACKGROUND

A.

HAWC

HAWC is a public utility authorized by the Commission since 1974 to provide: (1) wastewater collection, treatment, and disposal service to the residences, condominiums, commercial and other establishments and facilities in the Hawaii Kai community on the island of Oahu, State of Hawaii ("Hawaii Kai"); (2) wastewater services to the residents, occupants, homeowner associations, hotels and commercial establishments at the Mauna Lani Resort area on the island of Hawaii ("Mauna Lani");[4] and (3) wastewater services to the residential, commercial and other customers in the Waimea area on the island of Hawaii ("Waimea").[5]

HAWC is a Nevada corporation, with its principal place of business in Hawaii at 6700 Kalanianaole Highway, Suite 206, Honolulu, Hawaii 96825. Applicant's sole shareholder is American Water Works Company, Inc., a Delaware corporation.[6]

[4]See Docket No. 05-0229, Decision and Order No. 22299, issued on February 28, 2006.

[5]See Docket No. 2019-0039, Decision and Order No. 36962, issued on January 22, 2020 ("Decision and Order No. 36962").

[6]HAWC was formerly known as East Honolulu Community Services, Inc. ("EHCSI"). In January 1998, the Commission approved American Water Works Company, Inc.'s acquisition of all the issued and

B.

Application

On August 2, 2024, HAWC filed its Application[7] in the subject docket requesting Commission approval of utility rate increases and revised rate schedules and rules, pursuant to HRS § 269-16.[8] By its Application, HAWC requests Commission approval of the following rate increases for its three districts:

- For Hawaii Kai, an increase in total revenues of $1,382,060 or approximately 11.45 percent (11.45%), over total revenues at present rates;[9]
- For Mauna Lani, an increase in total revenues of $897,060 or approximately 64.90 percent (64.90%), over total revenues at present rates;[10] and

outstanding shares of EHCSI. See Docket No. 97-0339, Decision and Order No. 16175, issued on January 27, 1998.

[7]"Application; Exhibits 1 through 14; Attachments; Verification; and Certificate of Service," filed on August 2, 2024 ("Application").

[8]See Application.

[9]See Application, Exhibit 7 (line 7, columns (b) and (d), respectively); and Exhibit 14 ("Exhibit No. 14-T-100").

[10]See Application, Exhibit 7 (line 8, columns (b) and (d), respectively); and Exhibit No. 14-T-100.

- For Waimea, an increase in total revenues of $194,450 or approximately 32.60 percent (32.60%), over total revenues at present rates.[11]

HAWC's present and proposed rate schedules are as follows:

[11] See Application, Exhibit 7 (line 8, columns (b) and (d), respectively); and Exhibit No. 14-T-100.

Hawaii Kai

Customer Class	Current	Proposed	% Change
Residential Units:			
Single-Family Residential Unit (monthly service charge per dwelling unit)	$79.21	$88.28	11.45%
Multi-Family Residential Unit (monthly service charge per dwelling unit)	$67.40	$75.12	11.45%
Commercial (Non-Residential) Units:			
Food Service Operation	$18.98 per 1,000 gallons of water used	$21.15 per 1,000 gallons of water used	11.43%
Non-Food Service Operation	$11.65 per 1,000 gallons of water used	$12.98 per 1,000 gallons of water used	11.42%
Public Authority-Other[12]	$11.65 per 1,000 gallons of water used	$12.98 per 1,000 gallons of water used	11.42%
Public Authority-Dwelling[13]	$4.40 per 1,000 gallons of wastewater treated	$4.90 per 1,000 gallons of wastewater treated	11.36%

[12]The Public Authority-Other class refers to the sewerage services provided by HAWC to the City and County of Honolulu ("City"), the State of Hawaii and other facilities (including parks, schools, fire station, and Lunalilo Home). HAWC's existing rate schedules filed with the Commission currently combine Non-Food Service Operation and Public Authority-Other involve a different group of customers, HAWC is presenting each separately for purposes of this Application.

[13]The Public Authority-Dwelling class refers to the services provided by HAWC to the City for the City's residential customers in Hawaii Kai, including Kuliouou Valley, Portlock, Paiko, and other areas, which fall outside of HAWC's service territory, but which are served directly by the City's sewerage system and then connected to HAWC's wastewater system for distribution processing.

Mauna Lani

Customer Class	Current	Proposed	% Change
Residential Units:			
Single-Family Unit (monthly flat-rate charge)	$45.78	$71.20	55.53%
Multi-Family Unit (monthly flat-rate charge)	$45.78	$71.20	55.53%
Commercial (Non-Residential) Units:			
	$45.78	$75.49	$64.90%
Commercial Sewer (monthly service charge per equivalent unit)	$45.78	$75.49	$64.90%
Commercial Hotel (monthly service charge per hotel room unit)			

Waimea

Customer Class	Current	Proposed	% Change
Residential Units:			
Single-Family Unit (monthly flat-rate charge)	$108.47	$143.83	32.60%
Multi-Family Unit (monthly flat-rate charge)	$108.47	$143.83	32.60%
Commercial (Non-Residential) Units:			
All Other Facilities (including commercial, recreational, schools, churches, etc)	$14.41 per 1,000 gallons of water used	$19.10 per 1,000 gallons of water used	32.55%

As part of its Application, HAWC also requests various revisions to its tariffs for all three districts, including, but not limited to: (1) adding a new rule for a Catastrophic Event Tracking Mechanism ("CETM") to address cost recovery related to the restoration, repairs, replacement,

and compliance with government agency orders resulting from declared disasters; (2) adding a new rule for a Capital Infrastructure Surcharge Mechanism ("CISM") that facilitates smaller, more gradual rate increases by annually updating eligible capital expenditures completed in the prior calendar year and implementing a surcharge to recover HAWC's return and related revenue requirement on those investments; and (3) with respect to Waimea, amending and replacing the tariff language (which was not changed with HAWC's acquisition) with HAWC's most recently Commission approved tariff for Hawaii Kai, which includes rules for an Automatic Power Cost Adjustment Clause and late payment fees.

C.

Public Hearing

The Commission's Notice of Public Hearing was published in accordance with HRS §§ 269-12 and 269-16.[14] On October 25, 2024, the Commission held an in-person and virtual public hearing on the relief requested by HAWC for Hawaii Kai,

[14]The Commission's Notice of Public Hearing was published on: October 4, 11, 18, and 23, 2024, in the Honolulu Star-Advertiser; and October 7, 14, 21, and 26, 2024, in the West Hawaii Today and the Hawaii Tribune-Herald. See: Affidavit of Publication (HSA), filed on November 15, 2025; and Affidavit of Publication (WHT) and Affidavit of Publication (HTH), filed on November 15, 2024.

at the Commission's hearing room at its main office in Honolulu on the island of Oahu.[15] On October 28, 2024, the Commission also held another in-person public hearing for the relief requested by HAWC for Mauna Lani and Waimea, at the Natural Energy Laboratory of Hawaii Authority in Kona on Hawaii Island.[16]

D.

Procedural History

On February 9, 2024, HAWC filed its Notice of Intent[17] in this matter.

On March 8, 2025, HAWC filed a motion to file a consolidated general rate case application for all three districts (Hawaii Kai, Mauna Lani, and Waimea) in the subject docket,[18] and therein stated its intent "to file the consolidated application pursuant to HRS § 269-16(d))" and "waive the six-month procedural schedule and related filing requirements for small utilities under

[15]HAWC's representative and the Consumer Advocate appeared and testified.

[16]HAWC's representative, the Consumer Advocate, and members of the public appeared and testified.

[17]"Notice of Intent; Verification; and Certificate of Service," filed on February 9, 2024.

[18]"Hawaii-American Water Company's Motion for Approval to Consolidate General Rate Case Applications; Memorandum in Support of Motion; and Certificate of Service," filed on March 8, 2024 (respectively, the "Consolidation Motion" and "Consolidation Memorandum").

HRS § 269-16(f) if authorized to file a consolidated application."[19] HAWC's Hawaii Kai operations has annual gross operating revenues in excess of $2,000,000, while its operations at Mauna Lani and Waimea do not.[20]

On May 24, 2024, HAWC filed a motion for protective order to protect the submission of confidential information in the subject docket.[21]

On June 7, 2024, HAWC filed a motion to waive the requirement to file audited financial statements in its forthcoming application, pursuant to HAR §§ 16-601-75 and 16-601-86.[22]

By Order No. 40855, the Commission granted HAWC's Motion to Consolidate.[23]

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[19]Consolidation Memorandum at 8.

[20]Consolidation Memorandum at 8.

[21]"Hawaii-American Water Company's Motion for Protective Order; and Certificate of Service," filed on May 24, 2024.

[22]"Hawaii-American Water Company's Motion to Waive Requirement for Audited Financial Statements; Memorandum in Support of Motion; Declaration of Jeffrey M. Dana; and Certificate of Service," filed on June 7, 2024 ("Motion to Waive").

[23]Order No. 40855, "Granting Motion for Approval to Consolidate General Rate Case Applications," filed on June 21, 2024 ("Order No. 40855"). Consistent with the requirements of Order No. 40855, HAWC proceeded under HRS § 269-16(d) for all three districts and waived the six-month procedural schedule and related filing requirements for small utilities under HRS § 269-16(f) as it relates to its operations at Mauna Lani and Waimea. As such,

On June 21, 2024, the Commission issued "Protective Order No. 40856," to govern the submission of confidential information that may be requested and/or produced in the subject docket.

On June 26, 2025, the Commission issued Order No. 40863, which granted HAWC's Motion to Waive.[24]

On August 2, 2024, HAWC filed its Application in the subject docket requesting Commission approval of utility rate increases and revised rate schedules and rules, pursuant to HRS § 269-16. The Application included, among other things, Direct Testimonies, Exhibits, and Workpapers in support thereof, pursuant to HAR Chapter 16-601.

On August 21, 2024, the Consumer Advocate filed its position statement in the subject docket.[25] The Consumer Advocate stated that it did not object to the Commission finding that HAWC's Application meets the applicable requirements of HAR Title 16, Chapter 601, Subchapters 6 and 8.[26]

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the requirements set forth in HAR § 16-601-87 are applicable to HAWC's Application.

[24]Order No. 40863, "Granting Motion to Waive Requirement for Audited Financial Statements," filed on June 26, 2024.

[25]"Division of Consumer Advocacy's Statement of Position Regarding Completeness of Application," filed on August 21, 2024 ("Consumer Advocate SOP").

[26]Consumer Advocate SOP at 1 and 4.

During the month of October 2024, the Commission properly issued public notices[27] and held public hearings on the islands of Oahu and Hawaii Island regarding HAWC's proposed rate increases and other requests, pursuant to HRS §§ 269-12 and -16.[28]

On October 4, 2024, the Commission issued Order No. 41083,[29] and determined, among other things, that "[t]he filing date of the completed Application is [] August 23, 2024."[30]

The Parties jointly filed a proposed stipulated procedural schedule on October 14, 2024.[31]

On November 6, 2024, HOA, a homeowners association comprised of 225 single family homes within HAWC's Waimea district, filed a Motion to Participate in the subject proceeding.[32]

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[27]The Affidavits of Publication relating to the public hearings were submitted as part of the docket record on November 15, 2024.

[28]The Public Hearing Sign-Up Sheets and Written Testimonies were submitted as part of the docket record on October 28-29, 2024.

[29]Order No. 41083, "Regarding Completed Application and Other initial Matters," filed on October 4, 2024 ("Order No. 41083").

[30]Order No. 41083 at 2.

[31]"Stipulated Procedural Order; Exhibit A; and Certificate of Service," filed on October 14, 2024 ("Stipulated Procedural Order").

[32]Luala'i at Parker Ranch Homeowners Association's Application to Participate Per Section 16-601-56, filed on November 6, 2025 ("Motion to Participate").

On November 20, 2024, the Commission approved the Parties' proposed Stipulated Procedural Order.[33] The Commission subsequently approved proposed modification to the procedural schedule.[34] During the months of November 2024 through January 2025, the Consumer Advocate issued several rounds of written Information Requests ("IRs") to HAWC seeking information regarding the requests in the Application. HAWC timely provided responses to said IRs.[35]

On January 31, 2025, the Consumer Advocate filed its Direct Testimonies, Exhibits, and Workpapers in the subject docket.[36]

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[33]Order No. 41205, "Approving the Parties' Proposed Stipulated Procedural Schedule," filed on November 20, 2024.

[34]Order No. 41569, "Approving the Proposed Modification to the Stipulated Procedural Schedule," filed on February 25, 2025.

[35]See "Hawaii-American Water Company's Response to the Division of Consumer Advocacy's First Submission of Information Requests; Confidentiality Log; and Certificate of Service," filed on November 28, 2024; "Hawaii-American Water Company's Response to the Division of Consumer Advocacy's Second Submission of Information Requests; and Certificate of Service," filed on November 29, 2024; and "Hawaii-American Water Company's Response to the Division of Consumer Advocacy's Third Submission of Information Requests; Confidentiality Log; and Certificate of Service," filed on December 5, 2024. HAWC's responses to the Consumer Advocate's requests are designated as "Response to CA-IR_XX".

[36]"Division of Consumer Advocacy's Direct Testimonies, Exhibits, and Workpapers," filed on January 31, 2025 ("CA Direct Testimonies").

On February 13, 2025, the Commission granted HOA's Motion to Participate, granting HOA limited participant status in this proceeding.[37] On February 27, 2025, HOA issued its round of IRs,[38] to which HAWC timely responded on March 14, 2025.[39]

On March 21, 2025, HAWC filed its Rebuttal Testimonies in the subject docket.[40]

HOA filed its Statement of Position on March 28, 2025,[41] to which HAWC responded on April 11, 2025.[42]

On April 11, 2025, HAWC filed a motion to enlarge the deadline to file the Parties' settlement stipulation and proposed

[37]Order No. 41550.

[38]Letter From: G. Ryan To: Commission Re: Docket No. 2024-0038 - Hawaii-American Water Company (HAWC) - For Approval of General Rate Increase and Certain Tariff Changes for its Waimea District – Luala'i HOA Board of Directors Submission of Information Requests to HAWC, filed on February 27, 2025.

[39]"Hawaii-American Water Company's Response to Luala'i HOA Board of Directors' Submission of Information Requests; and Certificate of Service," filed on March 14, 2025 ("HAWC Response to HOA-IR-__"

[40]"Hawaii-American Water Company's Rebuttal Testimonies and Exhibits; and Certificate of Service," filed on March 21, 2025 ("HAWC Rebuttal Testimonies").

[41]"Luala'i Homewoners Association Board of Directors Statement of Position," filed on March 28, 205 ("HOA SOP").

[42]"Hawaii-American Water Company's Supplemental Rebuttal Testimonies and Exhibits as to Luala'i Homeowners Association Board of Directors Statement of Position; and Certificate of Service," filed on April 11, 2025 ("HAWC Supplemental Rebuttal Testimonies").

decision and order.[43] On April 15, 2025, the Commission granted HAWC's Motion to Enlarge.[44]

On April 21, 2025, HOA filed its supplemental rebuttal testimonies and exhibits.[45]

On April 27, 2025, the Parties filed the Stipulation, and HAWC filed a "Proposed Decision and Order" ("Proposed Decision").

II.

STATEMENT OF ISSUES

As proposed by the Parties in the Stipulated Procedural Order and approved by the Commission in Order No. 41205, the Statement of Issues is as follows:

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[43]Letter From: D. Nakashima To: Commission Re: Docket No. 2024-0038 – In re Application of Hawaii-American Water Company for Approval of a General Rate Increase and Certain Tariff Changes for its Hawaii Kai, Mauna Lani, and Waimea districts – Joint Motion for Enlargement of Time to File Settlement Stipulation and Proposed Decision and Order, filed on April 11, 2024 ("Motion to Enlarge"). By the Motion to Enlarge, the Parties requested an enlargement of time until April 25, 2025 (i.e., an enlargement of time by nine (9) business days) to file a settlement agreement and a proposed decision and order. Motion to Enlarge at 1.

[44]Order No. 41652, "Granting Request for Enlargement of Time," filed on April 15, 2025 ("Order No. 41652"). Throughout this proceeding, the Parties held settlement discussions wherein certain issues (with the exception of the Outstanding Issue) were clarified and resolved.

[45]Luala'i Homeowners Association Board of Directors Response to HAWC's Supplemental Rebuttal Testimonies and Exhibits, filed on April 21, 2025.

1. Are HAWC'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, 2025 through December 31, 2025 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 reasonable?

2. Are HAWC's proposed tariff changes to Tariff No. 1 (Hawaii Kai), Tariff No. 2 (Mauna Lani), and Tariff No. 3 (Waimea), including the proposed Catastrophic Event Tracking Mechanism ("CETM"), the Capital Infrastructure Surcharge Mechanism ("CISM"), and applicable revised rate schedules, reasonable?

III.

DISCUSSION

A.

Timing of Decision and Order

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

application.[46] Conversely, subsection (f) applies to applicants with annual gross revenues of less than $2 million, 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.[47]

As noted above, and consistent with Order No. 40855, HAWC has elected to proceed under HRS § 269-16(d) for all three districts and waived the six-month procedural schedule and related filing requirements for small utilities under HRS § 269-16(f) as it relates to its operations at Mauna Lani and Waimea. As such, the requirements set forth in HAR § 16-601-87 are applicable to HAWC's Application.

Under HRS § 269-16(d), "[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."[48] "Notwithstanding subsection (c), if the [C]ommission has not issued its final decision on a public

[46]See HRS § 269-16(d).

[47]HRS § 269-16(f).

[48]HRS § 269-16(d).

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.

Here, the nine-month period for the date of HAWC's completed Application ended on May 23, 2025.[49] However, as noted above, the procedural schedule in this docket was subsequently modified by HAWC's Motion to Enlarge, and the Commission's issuance of Order No. 41652, which granted the Motion to Enlarge and extended the deadline for any settlement stipulation and proposed decision from April 11, 2025, to April 25, 2025. When considering the motion, the Commission took into consideration that while the extension eliminated nearly two weeks from the time reserved by the Commission for its issuance of a final decision on HAWC's request, denying the Parties' joint request may have resulted in the Parties not having sufficient time to reach a settlement on the issues, which would have left more disputed issues to resolve and resulted in a less efficient proceeding.[50]

[49]As noted above, the filing date of HAWC's completed Application is August 23, 2024. Order No. 41083 at 2.

[50]See Motion to Enlarge at 1 ("The Parties respectfully assert that there is good cause to approve this request because this

Taking the foregoing into account, it was not reasonably feasible for the Commission to issue a final decision on HAWC's request by May 23, 2025. Pursuant to HRS § 269-16(d), the Commission will be submitting a report to the Legislature within thirty days of this Final Decision and Order.

B.

Settlement Stipulation

1.

Terms and Conditions

As a result of the Stipulation, the Parties,: (1) settle most of the issues; and (2) agree to submit written briefs in lieu of an evidentiary hearing on the Outstanding Issue. The Stipulation further states:

> The Parties agree that the following provisions of this Stipulation are binding as between them with respect to the specific issues and matters to be resolved in this Stipulation. 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 the issues addressed in this Stipulation on which they had differences for the purpose of simplifying and expediting the proceeding, and are not meant to be an admission by either of the Parties as to the acceptability or permissibility of matters

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additional time is expected to resolve more 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 adjudicate and potentially result in a more expedient decision in the subject docket.").

> 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.[51]

While the Parties have executed the Stipulation, 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 Commission has an independent obligation to set fair and just rates and arrive at its own conclusion.[52]

With this mandate, the Commission reviews the Parties' Stipulation and briefing on the Outstanding Issue.

[51]Stipulation at 6-7.

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

2.

Summary[53]

The Parties settled on a revenue requirement of: (a) $12,650,680 for Hawaii Kai, resulting in an overall revenue increase of $594,290 or approximately 4.93% from present rates; (b) $2,142,880 for Mauna Lani, resulting in an overall revenue increase of $765,100 or approximately 55.53% from present rates; and (c) $695,030 for Waimea, resulting in an overall revenue increase of $100,530 or 16.91% from present rates.[54]

The Parties further agree on HAWC's proposed rate design and to a step increase period for the stipulated rate increase for the Mauna Lani district to help mitigate this rate increase. The first step of the rate increase would be effective upon Commission approval, and the second step would be six months after the effective date of the first step.[55]

The Parties have reached an agreement on all the issues in this proceeding except on the issue of the CISM. Each category of HAWC's revenue requirement and other relevant issues,

[53]There may be slight differences between the summed values and listed totals in some of the tables and schedules due to rounding.

[54]Stipulation, Exhibit 4 Hawaii Kai; Exhibit 4 Mauna Lani; and Exhibit 4 Waimea.

[55]See Stipulation at 53; and Proposed Decision and Order at 73-74.

including CISM (i.e., the Outstanding Issue), is discussed in greater detail below.

3.

Rate of Return (All Wastewater Districts)

In the Application, HAWC proposed a rate of return ("ROR") of 7.45%, which incorporates a proposed return on equity ("ROE") of 10.67% for all three districts based on a 2025 Test Year. In its Direct Testimonies, the Consumer Advocate recommended an ROR of 6.90%, incorporating a ROE of 9.60%. As part of their Settlement, the Parties agreed to an ROE of 9.75%, a cost of debt of 3.96%, and a capital structure of 52.11% equity and 47.89% debt, which results in a stipulated ROR of 6.97%, which the Commission finds reasonable.

C.

Operating Revenues

HAWC provides service to three separate service areas across the State: (1) Hawaii Kai in the City and County of Honolulu on the island of Oahu; (2) Mauna Lani in Hawaii County on Hawaii island; and (3) Waimea in Hawaii County on Hawaii island. For each service district, HAWC serves multiple customer classes and generally charges a flat monthly rate except for commercial customers in Hawaii Kai and Waimea, who are charged

a volumetric fee. HAWC receives late payment fees on delinquent account balances and revenues from the insufficient funds charge assessed on returned checks for its Hawaii Kai and Mauna Lani districts, but not for its Waimea district. In the Application, HAWC proposed extending the late payment charges to the Waimea district to be consistent with the Hawaii Kai and Mauna Lani districts.[56]

In its Direct Testimonies, the Consumer Advocate agreed with HAWC's revenue methodology but recommended the disallowance of late payment charges for all three districts.[57] The Consumer Advocate reasoned that "the Company has a cash working capital that is used for cash flow purposes and administrative expenses to handle reminders, managing accounts and arranging for payment plans as well as other normal day to day activity requirements," and that there is "no need to add additional dollars to recover these proposed late payment charges."[58]

In its Rebuttal Testimonies, HAWC reiterated that the Commission has already authorized late payment charges for the

[56]Application, Exhibit 7 Hawaii Kai; Exhibit 7 Mauna Lani; and Exhibit 7 Waimea.

[57]CA Direct Testimonies, Exhibit CA-T-2 at 59, 61, and 63.

[58]CA Direct Testimonies, Exhibit CA-T-2 at 63.

Hawaii Kai and Mauna Lani districts, and that late payment charges are a common practice and should be applied consistently for all HAWC customers.[59] HAWC also argued that late payment charges encourage timely customer payments and cover additional administrative costs that are associated with processing late payments.[60]

Through settlement discussions, the Consumer Advocate: clarified that it is not opposed to HAWC's ability to charge late payment fees, which would require an amendment to the Hawaii Kai and Mauna Lani tariffs to remove the relevant rules authorizing late payment fees; and recognized that reasonable late payment fees can encourage timely payments by customers, which supports utility operations and ultimately serves the public interest. However, the Consumer Advocate clarified that it opposed HAWC's inclusion of late payment charges in its calculation of the revenue requirement.[61] As part of their settlement, the Parties agreed to HAWC's revenue methodology but removed the inclusion of late payment fees in the revenue requirement calculations.[62]

[59]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 24.

[60]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 24.

[61]See Stipulation at 9.

[62]Stipulation at 9. However, the Parties clarified that HAWC may collect "reasonable ate payment fees and that the Waimea tariff

The Commission finds reasonable the Parties' stipulation regarding the revenue methodology and the revenue amounts for the three districts presented in the exhibits to the Stipulation.

D.

Operating Expenses

1.

General Methodology and Inflation Adjustment

In the Application, HAWC proposed to apply: (1) a Consumer Price Index for urban ("CPI-U") factor to a three-year historical average for 2021-2023 recorded operations and maintenance ("O&M") expenses; and (2) a CPI-U factor to project 2024 and 2025 Test Year expenses for various O&M expenses.[63] In projecting the 2025 Test Year O&M expenses for various accounts, HAWC first applied a CPI-U to year 2021 through 2023 recorded expenses to bring them to 2023 dollars and then applied a forecasted CPI-U factor of 3.6% to the inflation adjusted three-year average to determine the 2024 estimated expense. Next, HAWC applied a

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can be amended to allow the assessment of such charges, consistent with the tariffs for Hawaii Kai and Mauna Lani." Id. at 9 n.10.

[63]Application, Exhibit 14-T-200 at 13-14.

CPI-U factor of 2.8% to the estimated 2024 expense in order to determine the 2025 Test Year amount.[64]

In its Direct Testimonies, the Consumer Advocate accepted HAWC's use of a three-year historical average of 2021-2023 for its O&M expenses but recommended the disallowance of the inclusion of CPI indices to adjust the historical average for the 2025 Test Year.[65]

In its Rebuttal Testimonies, HAWC explained why the use of CPI factor is a reasonable and generally accepted practice in utility rate proceedings.[66] In the interest of reaching a settlement, the Parties agreed to HAWC's methodology of a three- year historical average without the application of an inflation adjustment.[67] The Commission finds the Parties' use of HAWC's methodology without the application of an inflation adjustment to be reasonable.

[64]See Application, Exhibit 14-T-200 at 13-14; and Application, Exhibits 7-3, 7-4, 7-5, 7-6, 7-7, 7-8, 7-10, and 7-14.

[65]See CA Direct Testimonies, Exhibit CA-T-2 at 64.

[66]See HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 7-10.

[67]Stipulation at 10.

2.

Labor

a.

Hawaii Kai

In its Application, HAWC projected a Test Year labor expense of $1,371,580 (net of capitalization), which includes base salaries and wages, overtime and standby compensation, amounts allocated to Hawaii Island operations, and Annual Performance Plan ("APP")[68] performance compensation of $96,457.[69] In its Direct Testimonies, the Consumer Advocate did not challenge HAWC's total direct compensation amounts, but adjusted the APP performance compensation by 50%, or a disallowance of $48,229, asserting certain APP benchmarks (e.g., financial and company earnings benchmarks) do not provide any discernable benefit to customers.[70] The Consumer Advocate also recommended the disallowance for the entirety of the Long-Term Performance Plan ("LTPP").[71]

[68]APP compensation is an incentive-based plan tied to Company annual performance goals, such as environmental compliance, customer service, and other operational and financial benchmarks.

[69]See Application, Exhibit 7-2.

[70]See CA Direct Testimonies, Exhibit CA-T-2 at 72-73.

[71]CA Direct Testimonies, Exhibit CA-T-2 at 96.

In its Rebuttal Testimonies, HAWC stated that performance compensation is an integral part of the Company's compensation program and is structured to represent total market-based compensation, and that eliminating a portion of the Company's overall total market-based compensation would put the Company at a disadvantage in competing to attract and retain qualified employees, which is critical to the Company's mission to provide safe and reliable service to its customers.[72] With respect to the LTPP, HAWC reiterated that all of the Company's performance compensation objectives — both operational and financial — focus employees' efforts in ways that ultimately benefit customers and, therefore, should be completely recoverable.[73] HAWC further argued that, even if the Commission were to adopt the Consumer Advocate's logic, a portion equal to 30% of the Company's LTPP expense, which is tied solely to an employee's total compensation and not to any financial metric, should still be recoverable.[74]

In the interest of reaching a settlement, the Parties agreed to the 50% adjustment to APP performance compensation.[75]

[72]See HAWC Rebuttal Testimonies, Exhibit LAM RT-400 at 17-18.

[73]See HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 21.

[74]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 21.

[75]Stipulation at 12.

Accordingly, the Parties stipulate to a Test Year labor expense of $1,330,780 for the Hawaii Kai district.[76]

Based on the record, the Commission finds reasonable the stipulated labor expense of $1,330,780 for the Hawaii Kai district.

b.

Mauna Lani

In its Application, HAWC projected a Test Year labor expense of $272,900 (net of capitalization), which includes base salaries and wages, overtime and standby compensation, amounts allocated to Hawaii Island operations, and APP performance compensation of $20,983.[77] As with Hawaii Kai, the Consumer Advocate adjusted the APP performance compensation by 50% or a disallowance of $10,120.[78] During settlement negotiations, the Parties agreed to the 50% adjustment to APP performance compensation.[79]

[76]Stipulation at 12.

[77]See Application, Exhibit 7-2.

[78]See CA Direct Testimonies, Exhibit CA-T-2 at 104; and Schedule CA-ML-210.

[79]Stipulation at 12.

Accordingly, the Parties stipulate to a Test Year labor expense of $262,020 for the Mauna Lani district.[80]

Based on the record, the Commission finds reasonable the stipulated labor expense of $262,020 for the Mauna Lani district.

c.

Waimea

In its Application, HAWC projected a Test Year labor expense of $74,810 (net of capitalization), which is comprised of labor costs allocated to Hawaii Island operations.[81] The Consumer Advocate accepted the foregoing amount without any adjustments.[82]

Accordingly, the Parties stipulate to the foregoing Test Year labor expense of $71,980 for the Waimea district.[83] The Commission finds reasonable the stipulated labor expense of $71,980 for the Waimea District.

[80]Stipulation at 12-13.

[81]See Application, Exhibit 7-2.

[82]See CA Direct Testimonies, Exhibit CA-T-2 at 133.

[83]Stipulation at 13.

3.

Pension & Benefits

a.

Hawaii Kai

In its Application, HAWC forecasted a total pension and benefits expense of $286,530, which includes $240,734 allocated portion of American Water's Group Insurance policy.[84] HAWC also utilized a CPI-U factor as part of this expense. The Consumer Advocate removed the CPI-U increase factor included for the Group Insurance expense and another miscellaneous welfare item. In total, the Consumer Advocate reduced the pension and benefits expense by $3,535 ($165 related to Other Welfare and $3,370 related to Group Insurance).[85] In its Rebuttal Testimonies, HAWC disagreed with the Consumer Advocate's adjustment to the Group Insurance expense and provided a further explanation regarding the methodology of how the Group Insurance expense was calculated.[86]

[84]See Application, Exhibit 7-11.

[85]See CA Direct Testimonies, Exhibit CA-T-2 at 87; and Schedule CA-HK-219.

[86]See HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 22, wherein the witness, Jonathan Morse, explains that the estimated 2024 group insurance cost is calculated based on the current actual premium for each employee; the 2025 monthly healthcare premium was escalated using a three-year average percentage change from 2021-2024, which equates to 3%; and that calculation of said insurance is based on averaging actual recorded costs over time and

In the interest of settlement, HAWC accepted the Consumer Advocate's recommended disallowance of the inflation adjustment.[87] Accordingly, the Parties stipulate to a pension and benefits expense of $282,820 for the Hawaii Kai district.[88] Based on the record, the Commission finds reasonable the stipulated pension and benefits expense of $282,820 for the Hawaii Kai district.

b.

Mauna Lani

In its Application, HAWC forecasted a total pension and benefits expense of $78,908, which includes $65,082 allocated balance portion of American Water's Group Insurance policy.[89] HAWC also utilized a CPI-U factor as part of this expense. The Consumer Advocate removed the CPI-U increase factor included for the Group Insurance balance. In total, the Consumer Advocate reduced the pension and benefits expense by $1,862 ($1,911 related

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that "therefore the 3% inflation factor for Test Year 2025 should be adopted."

[87]Stipulation at 14.

[88]Stipulation at 14.

[89]See Application, Exhibit 7-11.

to Group Insurance offset by $70 Group Insurance Cap Credits).[90] As with Hawaii Kai, HAWC provided rebuttal testimony on this issue[91] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to a pension and benefits expense of $76,980 for the Mauna Lani district.[92] The Commission finds reasonable the stipulated pension and benefits expense of $76,980 for the Mauna Lani district.

c.

Waimea

In its Application, HAWC forecasted a total pension and benefits expense of $15,213.[93] The Consumer Advocate recommended disallowance of the CPI-U inflation increase factor included for the Group Insurance balance. In total the Consumer Advocate reduced the pension and benefits expense by $318 ($324 related to Group Insurance offset by $7 Group Insurance Cap Credits) and

[90]See CA Direct Testimonies, Exhibit CA-T-2 at 117; and Schedule CA-ML-219.

[91]See HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 22.

[92]Stipulation at 14.

[93]See Application, Exhibit 7-11.

recommended a total expense amount of $14,895.[94] As with the other districts, HAWC provided rebuttal testimony on this issue[95] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to a pension and benefits expense of $14,890 for the Waimea district.[96] The Commission finds reasonable the stipulated pension and benefits expense of $14,890 for the Waimea district.

4.

Purchased Power - Electricity

a.

Hawaii Kai

In its Application, HAWC proposed a total purchased power expense of $659,060 based on a three-year average of power costs and kilowatt usage and included a CPI-U escalator factor.[97] The Consumer Advocate recommended a disallowance of the CPI-U escalation factor asserting this estimate is not known and

[94]See CA Direct Testimonies, Exhibit CA-T-2 at 148; and Schedule CA-W-219.

[95]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 22.

[96]Stipulation at 15.

[97]See Application, Exhibit No. 14-T-200 at 40-42; and Exhibit 7-3.

measurable, and based thereon, reduced the purchased power expense by $40,217.[98] As discussed above, HAWC provided rebuttal testimony on the issue of inflation[99] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to a purchased power expense of $618,830 for the Hawaii Kai district, and additionally, stipulate to the continuation of the Annual Power Cost Adjustment Mechanism ("APCAC") mechanism for the Hawaii Kai district, as previously approved in HAWC's last rate case (Docket No. 2021-0063).[100] The Parties' agreement on the APCAC is addressed below in Section H.

Based on the record, the Commission finds reasonable the stipulated purchased power expense of $618,830 for the Hawaii Kai district. The Commission also affirms the APCAC mechanism for the Hawaii Kai district.

[98]See CA Direct Testimonies, Exhibit CA-T-2 at 75; and Schedule CA-HK-211.

[99]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

[100]Stipulation at 15-16.

b.

Mauna Lani

In its Application, HAWC proposed a total purchased power expense of $306,962 based on a three-year average of power costs and kilowatt usage and included a CPI-U escalator factor.[101] The Consumer Advocate recommended disallowance of the CPI-U escalation factor asserting this estimate is not known and measurable, and based thereon, reduced the purchased power expense by $18,719.[102] As with the Hawaii Kai district, HAWC provided rebuttal testimony on the issue of inflation[103] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

In addition, HAWC requested approval to implement the APCAC mechanism for the Mauna Lani district to recover annual electrical rate changes.[104] The Consumer Advocate did not object to this request.[105]

[101]See Application, Exhibit No. 14-T-200 at 40-42; and Exhibit 7-3.

[102]See CA Direct Testimonies, Exhibit CA-T-2 at 106; and Schedule CA-ML-211.

[103]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

[104]See Application, Exhibit No. 14-T-200 at 42 and 48.

[105]See CA Direct Testimonies, Exhibit CA-T-2 at 106.

Accordingly, the Parties stipulate to a purchased power expense of $288,220 and the implementation of the APCAC mechanism for the Mauna Lani district.[106]

The Commission finds reasonable the stipulated purchased power expense of $288,220 and the implementation of the APCAC mechanism for the Mauna Lani district.

c.

Waimea

In its Application, HAWC proposed a total purchased power expense of $111,940 based on a three-year average of power costs and kilowatt usage and included a CPI-U escalator factor.[107] The Consumer Advocate recommended disallowance of the CPI-U escalation factor asserting this estimate is not known and measurable, and based thereon, reduced the purchased power expense by $6,837.[108] As with the other districts, HAWC provided rebuttal testimony on this issue[109] but ultimately accepted this adjustment during settlement negotiations.

[106]Stipulation at 16.

[107]See Application, Exhibit No. 14-T-200 at 40-42; and Exhibit 7-3.

[108]See CA Direct Testimonies, Exhibit CA-T-2 at 135; and Schedule CA-W-211.

[109]HAWC Rebuttal Testimonies, Exhibit JM RT 200 at 5-10.

In addition, HAWC requested approval to implement the APCAC mechanism for the Waimea district to recover annual electrical rate changes.[110] The Consumer Advocate did not object to this request.[111]

Accordingly, the Parties stipulate to a purchased power expense of $105,100 and the implementation of the APCAC mechanism for the Waimea district.[112]

The Commission finds reasonable the stipulated purchased power expense of $105,100 and the implementation of the APCAC mechanism for the Waimea district.

5.

Chemicals

a.

Hawaii Kai

In its Application, HAWC proposed a total chemical expense of $333,060 based on the historical average CPI inflation factor for the 2025 Test Year estimate.[113] The Consumer Advocate

[110]See Application, Exhibit No. 14-T-200 at 42 and 48.

[111]See CA Direct Testimonies, Exhibit CA-T-2 at 136.

[112]Stipulation at 17.

[113]See Application, Exhibit No. 14-T-200 at 43-44; and Exhibit 7-4.

recommended disallowance of the CPI inflation factor, which reduced this expense by $16,326.[114] HAWC provided rebuttal testimony on this issue[115] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to a chemicals expense balance of $317,200 for the Hawaii Kai district.[116] The Commission finds reasonable the stipulated chemicals expense of $317,200 for the Hawaii Kai district.

b.

Mauna Lani

In its Application, HAWC proposed a total chemical expense of $20,644 based on the historical average and a CPI inflation factor for the 2025 Test Year estimate.[117] The Consumer Advocate recommended disallowance of the CPI inflation factor, which reduced this expense by $1,260.[118]

[114]See CA Direct Testimonies, Exhibit CA-T-2 at 79; and Schedule CA-HK-212.

[115]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

[116]Stipulation at 18.

[117]See Application, Exhibit No. 14-T-200 at 43-44; and Exhibit 7-4.

[118]See CA Direct Testimonies, Exhibit CA-T-2 at 109; and Schedule CA-ML-212.

HAWC provided rebuttal testimony[119] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to a chemicals expense balance of $418,684 for the Mauna Lani district.[120] The Commission finds reasonable the stipulated chemicals expense of $418,684 for the Mauna Lani district.

c.

Waimea

In its Application, HAWC proposed a total chemical expense of $5,572 based on the historical average and a CPI inflation factor for the 2025 Test Year estimate.[121] The Consumer Advocate recommended disallowance of the CPI inflation factor, which reduced this expense by $2,084.[122] HAWC provided rebuttal testimony[123] but ultimately accepted the

[119]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

[120]Stipulation at 18.

[121]See Application, Exhibit No. 14-T-200 at 43-44; and Exhibit 7-4.

[122]See CA Direct Testimonies, Exhibit CA-T-2 at 137; and Schedule CA-W-212.

[123]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

foregoing adjustment in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to a chemicals expense balance of $3,480 for the Waimea district.[124] The Commission finds reasonable the stipulated chemicals expense of $3,480 for the Waimea district.

6.

Operation Expense

a.

Hawaii Kai

In its Application, HAWC proposed a total operations expense of $161,640, which represents a three-year historical average of costs for contract services (e.g., legal, lab testing, other contracted services) and building maintenance.[125] In addition, HAWC applied the CPI index factor as part of this estimate. The Consumer Advocate recommended disallowance of the CPI index factor and reduced the expense amount by $16,326.[126]

[124]Stipulation at 18.

[125]See Application, Exhibit No. 14-T-200 at 46; and Exhibit 7-5.

[126]See CA Direct Testimonies, Exhibit CA-T-2 at 79; and Schedule CA-HK-213.

HAWC provided rebuttal testimony on this issue[127] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to an operation expense balance of $145,320 for the Hawaii Kai district.[128] The Commission finds reasonable the stipulated operation expense of $145,320 for the Hawaii Kai district.

b.

Mauna Lani

In its Application, HAWC proposed a total operation expense of $44,260, which represents a three-year historical average of costs for contract services (e.g., legal, lab testing, other contracted services) and building maintenance.[129] In addition, HAWC applied the CPI index factor as part of this estimate. The Consumer Advocate recommended disallowance of the CPI index factor and reduced the expense amount

[127]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

[128]Stipulation at 19.

[129]See Application, Exhibit No. 14-T-200 at 46; and Exhibit 7-5.

by $4,250.[130] HAWC provided rebuttal testimony on this issue[131] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to an operation expense balance of $40,010 for the Mauna Lani district.[132] The Commission finds reasonable the stipulated operation expense of $40,010 for the Mauna Lani district.

c.

Waimea

In its Application, HAWC proposed a total operations expense of $18,825, which represents a three-year historical average of costs for contract services (e.g., legal, lab testing, other contracted services) and building maintenance.[133] In addition, HAWC applied the CPI index factor as part of this estimate. The Consumer Advocate recommended disallowance of the

[130]See CA Direct Testimonies, Exhibit CA-T-2 at 110; and Schedule CA-ML-213.

[131]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

[132]Stipulation at 20.

[133]See Application, Exhibit No. 14-T-200 at 46; and Exhibit 7-5.

CPI index factor and reduced the expense amount by $1,888.[134] HAWC provided rebuttal testimony on this issue[135] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to an operation expense balance of $16,940 for the Waimea district.[136] The Commission finds reasonable the stipulated operation expense of $16,940 for the Waimea district.

7.

Maintenance

a.

Hawaii Kai

In its Application, HAWC proposed a total maintenance expense of $333,430 based on a three-year historical average and adjusted by a CPI index factor.[137] The Consumer Advocate removed the CPI index factor, which reduced the maintenance expense

[134]See CA Direct Testimonies, Exhibit CA-T-2 at 138-39; and Schedule CA-W-213.

[135]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

[136]Stipulation at 20.

[137]See Application, Exhibit No. 14-T-200 at 32; and Exhibit 7-6.

by $31,941.[138] HAWC provided rebuttal testimony[139] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to a maintenance expense balance of $300,700 for the Hawaii Kai district.[140] The Commission finds reasonable the stipulated maintenance expense of $300,700 for the Hawaii Kai district.

b.

Mauna Lani

In its Application, HAWC proposed a total maintenance expense of $48,380 based on a three-year historical average and adjusted by a CPI index factor.[141] The Consumer Advocate removed the CPI index factor, which reduced the maintenance expense by $11,864.[142] HAWC provided rebuttal testimony[143] but ultimately

[138]See CA Direct Testimonies, Exhibit CA-T-2 at 80; and Schedule CA-HK-214.

[139]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

[140]Stipulation at 21.

[141]See Application, Exhibit No. 14-T-200 at 32; and Exhibit 7-6.

[142]See CA Direct Testimonies, Exhibit CA-T-2 at 111; and Schedule CA-ML-214.

[143]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to a maintenance expense balance of $43,440 for the Mauna Lani district.[144] The Commission finds reasonable the stipulated maintenance expense of $43,440 for the Mauna Lani district.

c.

Waimea

In its Application, HAWC proposed a total maintenance expense of $30,940 based on a three-year historical average and adjusted by a CPI index factor.[145] The Consumer Advocate removed the CPI index factor, which reduced the maintenance expense by $4,787.[146] HAWC provided rebuttal testimony[147] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

[144]Stipulation at 21.

[145]See Application, Exhibit No. 14-T-200 at 139; and Exhibit 7-6.

[146]See CA Direct Testimonies, Exhibit CA-T-2 at 139-40; and Schedule CA-W-214.

[147]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

Accordingly, the Parties stipulate to a maintenance expense balance of $27,670 for the Waimea district.[148] The Commission finds reasonable the stipulated expense of $27,670 for the Waimea district.

8.

Waste Disposal

a.

Hawaii Kai

In its Application, HAWC proposed total waste disposal costs of $307,030 based on a three-year average and a step-up to account for the current CPI inflation rate.[149] This expense includes disposal and hauling charges.[150] The Consumer Advocate removed the CPI inflation adjustments, which reduced the costs by $6,975.[151] HAWC provided rebuttal testimony[152] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

[148]Stipulation at 21.

[149]See Application, Exhibit No. 14-T-200 at 44-45; and Exhibit 7-7.

[150]Application, Exhibit No. 14-T-200 at 44-45.

[151]See CA Direct Testimonies, Exhibit CA-T-2 at 80-81; and Schedule CA-HK-215.

[152]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

Accordingly, the Parties stipulate to a waste disposal expense of $300,060 for the Hawaii Kai district.[153] The Commission finds reasonable the stipulated waste disposal expense of $300,060 for the Hawaii Kai district.

b.

Mauna Lani

In its Application, HAWC proposed total waste disposal costs of $15,690 based on a three-year average and a step-up to account for the current CPI inflation rate.[154] The Consumer Advocate removed the CPI inflation adjustments, which reduced the costs by $954.[155] HAWC provided rebuttal testimony[156] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to a waste disposal expense of $14,740 for the Mauna Lani district.[157] The Commission

[153]Stipulation at 22.

[154]See Application, Exhibit No. 14-T-200 at 44-45; and Exhibit 7-7.

[155]See CA Direct Testimonies, Exhibit CA-T-2 at 112; and Schedule CA-ML-215.

[156]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

[157]Stipulation at 22.

finds reasonable the stipulated waste disposal expense of $14,740 for the Mauna Lani district.

c.

Waimea

In its Application, HAWC proposed total waste disposal costs of $45,330 based on a three-year average and a step-up to account for the current CPI inflation rate.[158] Waimea's waste disposal expense includes three components: (a) Sludge Pumping and Disposal charge; (b) a Sludge Pumping and Return Charge; and (c) Vactor Truck Services.[159] The Consumer Advocate removed the CPI inflation adjustments, which reduced the costs by $3,302.[160] HAWC provided rebuttal testimony[161] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to a waste disposal expense of $44,100 for the Waimea district. The Commission finds

[158]See Application, Exhibit No. 14-T-200 at 44-45; and Exhibit 7-7.

[159]See Application, Exhibit No. 14-T-200 at 45.

[160]See CA Direct Testimonies, Exhibit CA-T-2 at 142; and Schedule CA-W-215.

[161]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

reasonable the stipulated waste disposal expense of $44,100 for the Waimea district.[162]

9.

Customer Accounting

a.

Hawaii Kai

In its Application, HAWC proposed a total of $7,720 for its customer accounting expense (e.g., customer education bill inserts, collection, shipping, postage and printing).[163] HAWC determined this proposed amount based on a three-year historical expense average and applied a CPI inflation factor.[164] Consistent with other expense categories, the Consumer Advocate removed the inflation factor, which reduced the customer accounting expense balance by $686.[165] HAWC provided rebuttal testimony[166] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

[162]Stipulation at 23.

[163]See Application, Exhibit No. 14-T-200 at 31; and Exhibit 7-8.

[164]Application, Exhibit No. 14-T-200 at 31.

[165]See CA Direct Testimonies, Exhibit CA-T-2 at 82; and Schedule CA-HK-216.

[166]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

Accordingly, the Parties stipulate to a customer accounting expense of $7,030 for the Hawaii Kai district,[167] which the Commission finds reasonable.

b.

Mauna Lani

In its Application, HAWC proposed a total of $9,486 for its customer accounting expense.[168] HAWC determined this proposed amount based on a three-year historical expense average and applied a CPI inflation factor.[169] Consistent with other expense categories, the Consumer Advocate removed the inflation factor, which reduced the customer accounting expense balance by $936.[170] HAWC provided rebuttal testimony[171] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

[167]Stipulation at 24.

[168]See Application, Exhibit No. 14-T-200 at 31; and Exhibit 7-8.

[169]Application, Exhibit No. 14-T-200 at 31.

[170]See CA Direct Testimonies, Exhibit CA-T-2 at 143; and Schedule CA-W-216.

[171]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

Accordingly, the Parties stipulate to a customer accounting expense of $8,550 for the Mauna Lani district,[172] which the Commission finds reasonable.

c.

Waimea

In its Application, HAWC proposed a total of $62 for its customer accounting expense. HAWC determined this proposed amount based on a three-year historical expense average and applied a CPI inflation factor.[173] Consistent with other expense categories, the Consumer Advocate removed the inflation factor, which reduced the customer accounting expense balance by $4. HAWC provided rebuttal testimony[174] but ultimately accepted the foregoing adjustment in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to a customer accounting expense of $60 for the Waimea district.[175] Based upon the Consumer Advocate's removal of the inflation factor which "reduced the customer accounting expense balance [of $62]

[172]Stipulation at 24.

[173]Application, Exhibit No. 14-T-200 at 31.

[174]HAWC Rebuttal Testimonies, Exhibit JM RT-200 at 5-10.

[175]Stipulation at 24-25.

by $4[,]"[176] the Parties' stipulated customer accounting expense should have been $58, and not $62. As such, the Commission finds reasonable (and approves, as reasonable), a customer accounting expense of $58.

10.

Uncollectible Expense

a.

Hawaii Kai

In its Application, HAWC proposed an uncollectible expense of $90,130, based on a three-year average of actual uncollectible expenses, and arrived at a 0.67% uncollectible rate.[177] The Consumer Advocate's witness adjusted the revenue factor by averaging the three-year average uncollectible account rate -1.30% and utilized the Consumer Advocate's proposed revenue requirement.[178] As a result, the Consumer Advocate recommended a total uncollectible expense balance of $16,323 or an adjustment of $106,450.[179]

[176]Stipulation at 24.

[177]See Application, Exhibit No. 14-T-200 at 31-32; and Exhibit 7-9.

[178]CA-T-2 at 83.

[179]See CA Direct Testimonies, Exhibit CA-T-2 at 83; and Schedule CA-HK-217.

In the interest of reaching a settlement, the Parties agree to adopt a 0.62% uncollectible rate and therefore stipulate to an adjusted balance of $78,429,[180] which the Commission finds reasonable.

b.

Mauna Lani

In its Application, HAWC proposed an uncollectible expense of $15,270, based on a three-year average of actual uncollectible expenses, and arrived at a 0.67% uncollectible rate.[181] The Consumer Advocate's witness adjusted the revenue factor used to include the three-year average uncollectible accounts -1.30% and utilized the Consumer Advocate's proposed revenue requirement.[182] As a result, the Consumer Advocate recommended a total uncollectible expense balance of -$2,404 or an adjustment of $17,675.[183]

In the interest of reaching a settlement, the Parties agree to adopt a 0.62% uncollectible rate and therefore stipulate

[180]Stipulation at 25.

[181]See Application, Exhibit No. 14-T-200 at 31-32; and Exhibit 7-9.

[182]CA Direct Testimonies, Exhibit CA-T-2 at 114.

[183]See CA Direct Testimonies, Exhibit CA-T-2 at 114; and Schedule CA-ML-217.

to an adjusted balance of $13,282,[184] which the Commission finds reasonable.

c.

Waimea

In its Application, HAWC proposed an uncollectible expense of $5,300 based on a three-year average of actual uncollectible expenses and arrived at a 0.67% uncollectible rate.[185] The Consumer Advocate's witness adjusted the revenue factor used to include the three-year average uncollectible accounts -1.30% and utilized the Consumer Advocate's proposed revenue requirement.[186] As a result, the Consumer Advocate recommended a total uncollectible expense balance of -$795 or an adjustment of $6,094.[187]

In the interest of reaching a settlement, the Parties agree to adopt a 0.62% uncollectible rate and therefore stipulate

[184]Stipulation at 26.

[185]See Application, Exhibit No. 14-T-200 at 144; and Exhibit 7-9.

[186]CA Direct Testimonies, Exhibit CA-T-2 at 145.

[187]See CA Direct Testimonies, Exhibit CA-T-2 at 145; and Schedule CA-W-217.

to an adjusted balance of $4,306,[188] which the Commission finds reasonable.

11.

Insurance

a.

Hawaii Kai

In its Application, HAWC proposed a total insurance expense of $195,130, which covers property, general liability, excess liability, auto liability, workers compensation, and other policies.[189] HAWC calculated the proposed insurance costs based on actual premiums incurred in 2023 and escalated with a CPI factor.[190] The Consumer Advocate removed the CPI factor and adjusted certain capitalized credits, and reduced the balance by $5,275.[191] HAWC provided rebuttal testimony but ultimately accepted the foregoing adjustments in the interest of reaching a settlement on this issue.

[188]Stipulation at 26.

[189]See Application, Exhibit No. 14-T-200 at 28; and Exhibit 7-10.

[190]Application, Exhibit No. 14-T-200 at 28-29.

[191]See CA Direct Testimonies, Exhibit CA-T-2 at 84; and Schedule CA-HK-218.

Accordingly, the Parties stipulate to an insurance expense of $189,850 for the Hawaii Kai district,[192] which the Commission finds reasonable.

b.

Mauna Lani

In its Application, HAWC proposed a total insurance expense of $612, which covers property, general liability, excess liability, auto liability, compensation, and other policies.[193] HAWC calculated the proposed insurance costs based on actual premiums incurred in 2023 and escalated with a CPI factor.[194] The Consumer Advocate removed the CPI factor and adjusted certain capitalized credits, and reduced the balance by $16.[195] HAWC provided rebuttal testimony but ultimately accepted the foregoing adjustments in the interest of reaching a settlement on this issue.

[192]Stipulation at 27.

[193]See Application, Exhibit No. 14-T-200 at 28; and Exhibit 7-10.

[194]Application, Exhibit No. 14-T-200 at 28-29.

[195]See CA Direct Testimonies, Exhibit CA-T-2 at 115; and Schedule CA-ML-218.

Accordingly, the Parties stipulate to an insurance expense of $596 for the Mauna Lani district,[196] which the Commission finds reasonable.

c.

Waimea

In its Application, HAWC proposed a total insurance expense of $4,512, which covers property, general liability, excess liability, auto liability, workers compensation, and other Policies.[197] HAWC calculated the proposed insurance costs based on actual premiums incurred in 2023 and escalated with a CPI factor.[198] The Consumer Advocate removed the CPI factor and adjusted certain capitalized credits, and reduced the balance by $260.[199] HAWC provided rebuttal testimony but ultimately accepted the foregoing adjustments in the interest of reaching a settlement on this issue.

[196]Stipulation at 27.

[197]See Application, Exhibit No. 14-T-200 at 28; and Exhibit 7-10.

[198]Application, Exhibit No. 14-T-200 at 28-29.

[199]See CA Direct Testimonies, Exhibit CA-T-2 at 146; and Schedule CA-W-218.

Accordingly, the Parties stipulate to an insurance expense of $4,390 for the Waimea district,[200] which the Commission finds reasonable.

12.

Regulatory Expense

a.

Hawaii Kai

In its Application, HAWC proposed a total regulatory expense of $664,886 amortized over a three-year period or an annual expense recovery of $221,629.[201] HAWC allocated 97.46% or $216,006 of the annual regulatory expense to the Hawaii Kai district.[202] The Consumer Advocate recommended excluding certain outside consultant services provided by Alliance Consulting (Depreciation) and Blue Planet Utility Consulting (Rate Design) asserting these outside services should have been completed by HAWC's internal team.[203] In its Rebuttal Testimonies, HAWC provided further

[200]Stipulation at 28.

[201]See Application, Exhibit No. 14 T-100 at 63; and Exhibit 7-12.

[202]See Application, Exhibit No. 14-T-200 at 35; and Exhibit 7-12.

[203]See CA Direct Testimonies, Exhibit CA-T-2 at 88; and Schedule CA-HK-120.

justification for the charges related to Alliance Consulting and Blue Planet Utility Consulting.[204]

As part of their settlement, the Parties agreed to include the costs from Alliance Consulting and Blue Planet Utility Consulting and eliminate the estimated costs for hearings and post-hearing briefing due to this settlement.

Accordingly, the Parties stipulated to a total regulatory expense of $216,006 amortized over a three-year period for the Hawaii Kai district,[205] which the Commission finds reasonable.

b.

Mauna Lani

In its Application, HAWC allocated 0.307% or $673 of the annual regulatory expense to the Mauna Lani district.[206] In its Direct Testimonies, the Consumer Advocate eliminated certain consulting expenses, which reduced the proposed balance by $10.[207]

[204]See HAWC Rebuttal Testimonies, Exhibit SWO RT-100 at 29-31.

[205]Stipulation at 28.

[206]See Application, Exhibit No. 14 T-100 at 63; and Exhibit 7-12.

[207]See CA Direct Testimonies, Exhibit CA-T-2 at 118; and Schedule CA-ML-220.

In its Rebuttal Testimonies, HAWC provided further justification for said consulting services.[208]

As part of their settlement, the Parties agreed to include the subject consulting costs and eliminate the estimated costs for hearings and post-hearing briefing due to this settlement.

Accordingly, the Parties stipulated to a total regulatory expense of $673 amortized over a three-year period for the Mauna Lani district,[209] which the Commission finds reasonable.

c.

Waimea

In its Application, HAWC allocated 2.23% or $4,951 of the annual regulatory expense to the Waimea district.[210] In its Direct Testimonies, the Consumer Advocate eliminated certain consulting expenses, which reduced the proposed balance by $82.[211] In its Rebuttal Testimonies, HAWC provided further justification for said consulting services.

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[208]See HAWC Rebuttal Testimonies, Exhibit SWO RT-100 at 28-31.

[209]Stipulation at 29.

[210]See Application, Exhibit No. 14 T-100 at 63; and Exhibit 7-12.

[211]See CA Direct Testimonies, Exhibit CA-T-2 at 150; and Schedule CA-W-220.

As part of their settlement, the Parties agreed to include the subject consulting costs and eliminate the estimated costs for hearings and post-hearing briefing due to this settlement.

Accordingly, the Parties stipulated to a total regulatory expense of $4,951 amortized over a three-year period for the Waimea district,[212] which the Commission finds reasonable.

13.

Rents

a.

Hawaii Kai

In its Application, HAWC proposed a total rent expense of $66,390 based on recorded expenses for 2021-2023 and projected amounts for 2024 and the 2025 Test Year.[213] This rental expense covers the monthly rent for HAWC's office lease, electrical charges, related taxes, and an easement fee associated with the outfall at Sandy Beach. The Consumer Advocate did not recommend any adjustments based on its review of HAWC's documentation.

[212]Stipulation at 30.

[213]See Application, Exhibit No. 14-T-200 at 32; and Exhibit 7-13.

Accordingly, the Parties stipulate to the rent expense balance of $66,390 for the Hawaii Kai district,[214] which the Commission finds reasonable.

b.

Mauna Lani

HAWC did not propose any rental expenses for the Mauna Lani district. Accordingly, the Parties stipulate to a balance of $0,[215] which the Commission finds reasonable.

c.

Waimea

In its Application, HAWC proposed a total rent expense of $41,550 based on actual lease agreement costs for the wastewater treatment facility lease with Parker Ranch.[216] The Consumer Advocate did not recommend any adjustments based on its review of HAWC's documentation.

[214]Stipulation at 30.

[215]Stipulation at 30.

[216]See Application, Exhibit No. 14-T-200 at 33; and Exhibit 7-13.

Accordingly, the Parties stipulate to the rent expense balance of $41,550 for the Waimea district,[217] which the Commission finds reasonable.

14.

Other A&G and General Office Expenses

a.

Hawaii Kai

In its Application, HAWC proposed an administrative and general ("A&G") and general office expense balance of $431,520, which is comprised of phone costs, employee expenses, software licenses, lab supplies, transportation, contract services, and other A&G costs.[218] As for Hawaii Kai operations, HAWC allocated 97.459% or $144,444. HAWC determined the proposed amount based on a three-year historical average plus a CPI inflation factor for the 2025 Test Year. The Consumer Advocate eliminated the CPI inflation factor, which reduced the allocated A&G and general office expense balance by $12,121 for the Hawaii Kai district.[219] HAWC provided rebuttal testimony but

[217]Stipulation at 31.

[218]See Application, Exhibit No. 14-T-200 at 47; and Exhibit 7-14.

[219]See CA Direct Testimonies, Exhibit CA-T-2 at 91; and Schedule CA-HK-222.

ultimately accepted the foregoing adjustment in the interest of reaching a settlement.

Accordingly, the Parties stipulate to an allocated A&G and general office expense balance of $388,120 for the Hawaii Kai district,[220] which the Commission finds reasonable.

b.

Mauna Lani

In its Application, HAWC proposed an allocated A&G and general office expense balance of $69,209 or 0.304% for the Mauna Lani district.[221] After removing the CPI inflation factor, the Consumer Advocate reduced the proposed balance by $7,069.[222] HAWC provided rebuttal testimony but ultimately accepted the foregoing adjustment in the interest of reaching a settlement.

Accordingly, the Parties stipulate to an allocated A&G and general office expense balance of $62,540 for the Mauna Lani district,[223] which the Commission finds reasonable.

[220]Stipulation at 31.

[221]See Application, Exhibit No. 14-T-200 at 47; and Exhibit 7-14.

[222]See CA Direct Testimonies, Exhibit CA-T-2 at 121; and Schedule CA-ML-222.

[223]Stipulation at 32.

c.

Waimea

In its Application, HAWC proposed an allocated A&G and general office expense balance of $9,811 or 2.234% for the Waimea district.[224] After removing the CPI inflation factor, the Consumer Advocate reduced the proposed balance by $3,842.[225] HAWC provided rebuttal testimony but ultimately accepted the foregoing adjustment in the interest of reaching a settlement.

Accordingly, the Parties stipulate to an allocated A&G and general office expense balance of $8,930 for the Waimea district,[226] which the Commission finds reasonable.

15.

Support Services

a.

Hawaii Kai

In its Application, HAWC proposed a total support services balance of $870,260 and allocated $848,175 or 97.46% of

[224]See Application, Exhibit No. 14-T-200 at 47; and Exhibit 7-14.

[225]See CA Direct Testimonies, Exhibit CA-T-2 at 153; and Schedule CA-W-222.

[226]Stipulation at 32.

the total to the Hawaii Kai district.[227] These services are allocated from the American Water Works Service Company, Inc. ("Service Company"), including customer service, water quality, environmental compliance, human resources, communications, information technology, finance, accounting, regulatory, legal, engineering, supply, chain, and risk management, etc. HAWC calculated these expenses based on a three-year average and adjusted to account for a CPI-U inflation factor. The Consumer Advocate made several adjustments as follows: (1) removed all CPI-U inflation factor adjustments; and (2) removed all costs associated with the Company's Environmental, Social and Governance ("ESG") initiatives.[228] As a result, the Consumer Advocate reduced the allocated balance to the Hawaii Kai district by $67,271.[229] HAWC provided rebuttal testimony but ultimately accepted the foregoing adjustments in the interest of reaching a settlement.

In addition, HAWC accepted the Consumer Advocate's additional adjustments to the APP and LTPP to ensure consistency that those adjustments are also reflected in the allocated support services balance.

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[227]See Application, Exhibit No. 14-T-200 at 33-34; and Exhibit 7-15.

[228]See CA Direct Testimonies, Exhibit CA-T-2 at 94-95; and Schedule CA-HK-223.

[229]See id.

Accordingly, the Parties stipulate to an allocated support services balance of $694,510 for the Hawaii Kai district,[230] which the Commission finds reasonable.

b.

Mauna Lani

In its Application, HAWC proposed an allocated balance of $2,640 or 0.3034% of the total to the Mauna Lani district.[231] These services are allocated from the Service Company, including customer service, water quality, environmental compliance, human resources, communications, information technology, finance, accounting, regulatory, legal, engineering, supply, chain, and risk management, etc. HAWC calculated these expenses based on a three-year average and adjusted to account for a CPI-U inflation factor. The Consumer Advocate made several adjustments as follows: (1) removed all CPI-U inflation factor adjustments; and (2) removed all costs associated with ESG initiatives.[232] As a result, the Consumer Advocate reduced the allocated balance to the

[230]Stipulation at 33.

[231]See Application, Exhibit No. 14-T-200 at 33-34; and Exhibit 7-15.

[232]See CA Direct Testimonies, Exhibit CA-T-2 at 123-25; and Schedule CA-ML-223.

Mauna Lani district by $210.[233] HAWC provided rebuttal testimony but ultimately accepted the foregoing adjustments in the interest of reaching a settlement.

In addition, HAWC accepted the Consumer Advocate's additional adjustments to the APP and LTPP to ensure consistency that those adjustments are also reflected in the allocated support services balance.

Accordingly, the Parties stipulate to an allocated support services balance of $2,160 for the Mauna Lani district,[234] which the Commission finds reasonable.

c.

Waimea

In its Application, HAWC proposed an allocated balance of $19,441 or 2.234% of the total to the Waimea district.[235] These services are allocated from the Service Company, including customer service, water quality, environmental compliance, human resources, communications, information technology, finance, accounting, regulatory, legal, engineering, supply, chain,

[233]See id.

[234]Stipulation at 34.

[235]See Application, Exhibit No. 14-T-200 at 33-34; and Exhibit 7-15.

and risk management, etc. HAWC calculated these expenses based on a three-year average and adjusted to account for a CPI-U inflation factor. The Consumer Advocate made several adjustments as follows: (1) removed all CPI-U inflation factor adjustments; and (2) removed all costs associated with ESG initiatives.[236] As a result, the Consumer Advocate reduced the allocated balance to the Waimea district by $1,540.[237] HAWC provided rebuttal testimony but ultimately accepted the foregoing adjustments in the interest of reaching a settlement.

In addition, HAWC accepted the Consumer Advocate's additional adjustments to the APP and LTPP to ensure consistency that those adjustments are also reflected in the allocated support services balance.

Accordingly, the Parties stipulate to an allocated support services balance of $15,920 for the Waimea district,[238] which the Commission finds reasonable.

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[236]See CA Direct Testimonies, Exhibit CA-T-2 at 156; and Schedule CA-W-223.

[237]See id.

[238]Stipulation at 35.

E.

Depreciation & Amortization

1.

Depreciation Expense

a.

Hawaii Kai

In its Application, HAWC proposed a Test Year depreciation expense of $3,395,710; comprised of general depreciation, corporate general depreciation, less allocation of corporate depreciation to Hawaii Kai district, and depreciation amortization related to CIAC.[239] HAWC's consultant, Alliance, calculated the depreciation rates for the Hawaii Kai district by applying the plan account life and net salvage parameters from its previous rate case studies.

The Consumer Advocate accepted HAWC's depreciation rates and expense balance.[240] The Consumer Advocate, however, adjusted the depreciation expense to account for the Utility Plant-In-Service ("UPIS") balance adjustment[241] and other contingencies. As such, the Consumer Advocate reduced the

[239]See Application, Exhibit 7-16.

[240]See CA Direct Testimonies, Exhibit CA-T-2 at 98.

[241]See CA Direct Testimonies, Schedules (UPIS) CA-HK-205, CA-ML-205, and CA-W-205.

depreciation balance by $13,620.[242] HAWC accepted the foregoing adjustment in the interest of reaching a settlement.

Accordingly, the Parties stipulate to a depreciation expense balance of $3,384,490 for the Hawaii Kai district,[243] which the Commission finds reasonable.

b.

Mauna Lani

In its Application, HAWC proposed a Test Year depreciation expense of $559,242; comprised of general depreciation, corporate general depreciation, less allocation of corporate depreciation to the Mauna Lani district.[244] HAWC's consultant, Alliance, calculated the depreciation rates for the Mauna Lani district based on the results of a 2015 depreciation study used those depreciation rates multiplied by the average UPIS.

The Consumer Advocate accepted HAWC's depreciation rates and expense balance.[245] The Consumer Advocate, however, adjusted the depreciation expense to account for the

[242]See CA Direct Testimonies, Exhibit CA-HK-224.

[243]Stipulation at 36.

[244]See Application, Exhibit 7-16.

[245]See CA Direct Testimonies, Exhibit CA-T-2 at 98.

UPIS balance adjustment[246] and other contingencies. As such, the Consumer Advocate reduced the depreciation balance by $445.[247] HAWC accepted the foregoing adjustment in the interest of reaching a settlement.

Accordingly, the Parties stipulate to a depreciation expense balance of $558,850 for the Mauna Lani district,[248] which the Commission finds reasonable.

c.

Waimea

In its Application, HAWC proposed a Test Year depreciation expense of $166,294; comprised of general depreciation, corporate general depreciation, and less allocation of corporate depreciation to the Waimea district. HAWC's consultant, Alliance, calculated the depreciation rates for the Waimea district based on the results of a 2015 depreciation study using those depreciation rates multiplied by the average UPIS.

[246]See CA Direct Testimonies, Schedules (UPIS) CA-HK-205, CA-ML-205, and CA-W-205.

[247]See CA Direct Testimonies, Exhibit CA-ML-224.

[248]Stipulation at 37.

The Consumer Advocate accepted HAWC's depreciation rates and expense balance.[249] The Consumer Advocate, however, adjusted the depreciation expense to account for the UPIS balance adjustment and other contingencies to flow through a 30% capacity adjustment to the Waimea Wastewater Treatment Plant.[250] As such, the Consumer Advocate reduced the depreciation balance by $33,512.[251] HAWC accepted the foregoing adjustments in the interest of reaching a settlement.

Accordingly, the Parties stipulate to a depreciation expense balance of $144,840 for the Waimea district,[252] which the Commission finds reasonable.

2.

Amortization

a.

Hawaii Kai

HAWC proposed an amortization expense of $34,080, which includes costs that were previously approved by the Commission in Decision and Order No. 37522, issued on December 31, 2020,

[249]See CA Direct Testimonies, Exhibit CA-T-2 at 160.

[250]See id.

[251]See CA Direct Testimonies, Schedule CA-W-224.

[252]Stipulation at 38.

in Docket No. 2020-0188.[253] The Consumer Advocate accepted the proposed amortization balance based on its review of the documentation.[254]

Accordingly, the Parties stipulate to an amortization expense of $34,080 for the Hawaii Kai district,[255] which the Commission finds reasonable.

b.

Mauna Lani

HAWC did not propose any amortization expense for the Mauna Lani district. Accordingly, the Parties stipulate to a balance of $0,[256] which the Commission finds reasonable.

[253]See Application, Exhibit No. 14-T-200 at 34; and Exhibit 7-17.

[254]See CA Direct Testimonies, Exhibit CA-T-2 at 99.

[255]Stipulation at 38.

[256]Stipulation at 38.

c.

Waimea

HAWC did not propose any amortization expense for the Waimea district. Accordingly, the Parties stipulate to a balance of $0,[257] which the Commission finds reasonable.

F.

Taxes

1.

Taxes Other Than Income Taxes

a.

Hawaii Kai

HAWC proposed total general taxes (all taxes except income) of $1,069,739.[258] This balance is comprised of: (1) the Commission's 0.5% fee; (2) Payroll taxes; and (3) Public Utility Company Service Tax. The Consumer Advocate recommended several adjustments to account for flow through changes based on its expense adjustments to labor and other expenses.[259]

[257]Stipulation at 38.

[258]See Application, Exhibit 7-18.

[259]See CA Direct Testimonies, Exhibit CA-T-2 at 100; and Schedule CA-HK-226.

HAWC accepted the recommended flow through adjustments consistent with the agreed upon expense adjustments in this settlement.

Accordingly, the Parties stipulate to a total general taxes total of $981,770 for the Hawaii Kai district,[260] which the Commission finds reasonable.

b.

Mauna Lani

HAWC proposed a general taxes (all taxes except income) total of $127,060.[261] This balance is comprised of: (1) the Commission's 0.5% fee; (2) Payroll taxes; and (3) Public Utility Company Service Tax. The Consumer Advocate recommended several adjustments to account for flow through changes based on its expense adjustments to labor and other expenses.[262] HAWC accepted the recommended flow through adjustments consistent with the agreed upon expense adjustments in this settlement.

[260]Stipulation at 39.

[261]See Application, Exhibit 7-18.

[262]See CA Direct Testimonies, Exhibit CA-T-2 at 130 and Schedule CA-ML-226.

Accordingly, the Parties stipulate to a total general taxes total of $120,600 for the Mauna Lani district,[263] which the Commission finds reasonable.

c.

Waimea

HAWC proposed a general taxes (all taxes except income) total of $42,449.[264] This balance is comprised of: (1) the Commission's 0.5% fee; (2) Payroll taxes; and (3) Public Utility Company Service Tax. The Consumer Advocate recommended several adjustments to account for flow through changes based on its expense adjustments to labor and other expenses.[265] HAWC accepted these flow-through adjustments consistent with the agreed upon expense adjustments in this settlement.

Accordingly, the Parties stipulate to a total general taxes total of $38,050 for the Waimea district,[266] which the Commission finds reasonable.

[263]Stipulation at 39.

[264]See Application, Exhibit 7-18.

[265]See CA Direct Testimonies, Exhibit CA-T-2 at 162-63 and Schedule CA-W-226.

[266]Stipulation at 40.

2.

Income Taxes

a.

Hawaii Kai

HAWC proposed a total federal and state income tax balance of $520,205 based on the current statutory corporate income tax rates.[267] The Consumer Advocate accepted HAWC's calculation methodology and applied several adjustments to account for all other expense adjustment consistent with the agreed upon settlement.[268] HAWC accepted these flow-through adjustments consistent with the agreed upon expense adjustments in this settlement.

Accordingly, the Parties stipulate to a total income taxes total of $435,710 for the Hawaii Kai district,[269] which the Commission finds reasonable.

[267]See Application, Exhibit 7-19.

[268]See CA Direct Testimonies, Exhibit CA-T-2 at 102; and Schedule CA-HK-227.

[269]Stipulation at 40.

b.

Mauna Lani

HAWC proposed a total federal and state income tax balance of $40,049 based on the current statutory corporate income tax rates.[270] The Consumer Advocate accepted HAWC's calculation methodology and applied several adjustments to account for all other expense adjustment consistent with the agreed upon Settlement.[271] HAWC accepted these flow-through adjustments consistent with the agreed upon expense adjustments in this settlement.

Accordingly, the Parties stipulate to a total income taxes total of $21,293 for the Mauna Lani district,[272] which the Commission finds reasonable.

c.

Waimea

HAWC proposed a total federal and state income tax balance of $32,313 based on the current statutory corporate income

[270]See Application, Exhibit 7-19.

[271]See CA Direct Testimonies, Exhibit CA-T-2 at 131-32; and Schedule CA-ML-227.

[272]Stipulation at 41.

tax rates.[273] The Consumer Advocate accepted HAWC's calculation methodology and applied several adjustments to account for all other expense adjustment consistent with the agreed upon settlement.[274] HAWC accepted these flow-through adjustments consistent with the agreed upon expense adjustments in this settlement.

Accordingly, the Parties stipulate to a total income taxes total of $22,116 for the Mauna Lani district,[275] which the Commission finds reasonable.

G.

Rate Base

1.

Utility Plant-In-Service

a.

Hawaii Kai

HAWC proposed an average wastewater UPIS balance of $92,125,062, which reflects average capital projects recorded in

[273]See Application, Exhibit 7-19.

[274]See CA Direct Testimonies, Exhibit CA-T-2 at 164; and Schedule CA-W-227.

[275]Stipulation at 41.

2021-2023 and forecasted in 2024 and 2025.[276] The Consumer Advocate recommended disallowance of $400,000 in contingencies costs asserting these costs are not known and measurable.[277] In Rebuttal Testimonies, HAWC provided further justification for contingencies in project budget forecasting.[278] HAWC also explained that the Consumer Advocate's methodology for adjusting the 2025 Test Year rate base to eliminate the proposed contingencies was not appropriate because it did not recognize the mid-year weighting factor used to determine the 2025 Test Year rate base.[279]

In the interest of reaching a settlement, the Parties agreed to remove the capital contingencies using HAWC methodology. Accordingly, the Parties stipulate to a UPIS balance of $91,779,632 for the Hawaii Kai district,[280] which the Commission finds reasonable.

[276]See Application, Exhibit No. 14-T-100 at 49-50; and Exhibit 8-1.

[277]See CA Direct Testimonies, Exhibit CA-T-2 at 26; and Schedule CA-HK-205.

[278]See HAWC Rebuttal Testimonies, Exhibit MEL RT-300 at 2-5.

[279]See HAWC Rebuttal Testimonies, Exhibit SWO RT-100 at 14-15.

[280]Stipulation at 42.

b.

Mauna Lani

HAWC proposed an average wastewater UPIS balance of $16,313,141, which reflects the average capital projects recorded in 2021-2023 and forecasted in 2024 and 2025.[281] The Consumer Advocate recommended disallowance of $143,000 in contingencies costs asserting these costs are not known and measurable.[282] In Rebuttal Testimonies, HAWC provided further justification for contingencies in project budget forecasting.[283] HAWC also explained that the Consumer Advocate's methodology for adjusting the 2025 Test Year rate base to eliminate the proposed contingencies was not appropriate because it did not recognize the mid-year weighting factor used to determine the 2025 Test Year rate base.[284]

In the interest of reaching a settlement, the Parties agreed to remove the capital contingencies using HAWC methodology. Accordingly, the Parties stipulate to a UPIS balance of $16,191,641

[281]See Application, Exhibit No. 14-T-100 at 49-50; and Exhibit 8-1.

[282]See CA Direct Testimonies, Exhibit CA-T-2 at 36; and Schedule CA-ML-205.

[283]See HAWC Rebuttal Testimonies, Exhibit MEL RT-300 at 2-5.

[284]See HAWC Rebuttal Testimonies, Exhibit SWO RT-100 at 14-15.

for the Mauna Lani district,[285] which the Commission finds reasonable.

c.

Waimea

HAWC proposed an average wastewater UPIS balance of $7,779,714, which reflects the average capital projects recorded in 2021-2023 and forecasted in 2024 and 2025.[286] The Consumer Advocate recommended disallowance of $426,000 in contingencies costs asserting these costs are not known and measurable.[287] The Consumer Advocate also recommended an excess capacity adjustment of 30% be applied to plant in service, accumulated depreciation, and depreciation expense for Waimea's treatment plant accounts 354400, 371100, 380350, and 380625.[288]

In Rebuttal Testimonies, HAWC provided further justification for contingencies in project budget forecasting.[289] HAWC also explained that the Consumer Advocate's methodology for

[285]Stipulation at 43.

[286]See Application, Exhibit No. 14-T-100 at 49-50; and Exhibit 8-1.

[287]See CA Direct Testimonies, Exhibit CA-T-2 at 46; and Schedule CA-W-205.

[288]See CA Direct Testimonies, Exhibit CA-T-4 at 26-28.

[289]See HAWC Rebuttal Testimonies, Exhibit MEL RT-300 at 2-5.

adjusting the 2025 Test Year rate base to eliminate the proposed contingencies was not appropriate because it did not recognize the mid-year weighting factor used to determine the 2025 Test Year rate base.

With respect to the Consumer Advocate's excess capacity adjustment, HAWC explained, among other things, that Department of Health regulations require wastewater systems to have excess capacity and that the existing plant capacity is reasonable.[290] HAWC further stated that because these regulations require implementation of improvements at 90% of the designed capacity, the calculation would be 90% - 69.2% = 20.8% (using 69,226 gpd/100,000 design capacity = 69.2% as noted in Table 9 of the CA- T-4).[291]

As part of their settlement, the Parties agreed to: (1) remove capital contingencies using HAWC methodology; and (2) an excess capacity adjustment of 20.8% in this proceeding for ratemaking purposes only, incorporated using HAWC methodology to apply the adjustment to 2025 mid-year plant balances for related plant accounts identified in the Consumer Advocate's testimony. The Parties agree that this excess capacity issue can be

[290]See HAWC Rebuttal Testimonies, Exhibit LAM RT-400 at 4; see also HAWC Rebuttal Testimonies, Exhibit MEL RT-300 at 6-9.

[291]See HAWC Rebuttal Testimonies, Exhibit MEL RT-300 at 14.

reevaluated in the next rate case for Waimea. Accordingly, the Parties stipulate to a UPIS balance of $6,866,726 for the Waimea district,[292] which the Commission finds reasonable.

2.

Depreciation Reserve

a.

Hawaii Kai

HAWC proposed a total accumulated depreciation balance of $45,475,193, which was calculated by adding the annual depreciation accruals to the recorded balance.[293] The Consumer Advocate recommended a corresponding disallowance of $13,620 in contingencies costs consistent with the UPIS adjustment.[294] As discussed above, the Parties agreed to remove the capital contingencies using HAWC methodology.

Accordingly, the Parties stipulate to a depreciation reserve balance of $45,466,186 for the Hawaii Kai district,[295] which the Commission finds reasonable.

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[292]Stipulation at 45.

[293]See Application, Exhibit No. 14-T-100 at 51; and Exhibit 8-2.

[294]See CA Direct Testimonies, Exhibit CA-T-2 at 27; and Schedule CA-HK-206.

[295]Stipulation at 45.

b.

Mauna Lani

HAWC proposed a total accumulated depreciation balance of $6,451,817, which was calculated by adding the annual depreciation accruals to the recorded balance.[296] The Consumer Advocate recommended a corresponding disallowance of $445 in contingencies costs consistent with the UPIS adjustment.[297] As discussed above, the Parties agreed to remove the capital contingencies using HAWC methodology.

Accordingly, the Parties stipulate to a depreciation reserve balance of $6,451,462 for the Mauna Lani district,[298] which the Commission finds reasonable.

c.

Waimea

HAWC proposed a total accumulated depreciation balance of $5,194,294, which was calculated by adding the

[296]See Application, Exhibit No. 14-T-100 at 51; and Exhibit 8-2.

[297]See CA Direct Testimonies, Exhibit CA-T-2 at 37; and Schedule CA-ML-206.

[298]Stipulation at 45.

annual depreciation accruals to the recorded balance.[299] The Consumer Advocate recommended a corresponding disallowance of $8,143 in contingencies costs consistent with the UPIS adjustment.[300] As part of their settlement, the Parties agreed to: (1) remove capital contingencies using HAWC methodology; and (2) an excess capacity adjustment of 20.8% in this proceeding for ratemaking purposes only, incorporated using HAWC methodology to apply the adjustment to 2025 mid-year plant balances for related plant accounts identified in the Consumer Advocate's testimony.

Accordingly, the Parties stipulate to a depreciation reserve balance of $4,731,306 for the Waimea district,[301] which the Commission finds reasonable.

3.

Contributions in Aid of Construction ("CIAC")

a.

Hawaii Kai

HAWC proposed a CIAC average balance of $121,111, which represents the cost-free capital contributions paid by

[299]See Application, Exhibit No. 14-T-100 at 51; and Exhibit 8-2.

[300]See CA Direct Testimonies, Exhibit CA-T-2 at 48; and CA-W-206.

[301]Stipulation at 46.

customers and third parties to fund capital projects.[302] The Consumer Advocate accepted the foregoing CIAC balance.

Accordingly, the Parties stipulate to the foregoing CIAC balance for the Hawaii Kai district,[303] which the Commission finds reasonable.

b.

Mauna Lani

HAWC proposed a CIAC average balance of $0.[304] The Consumer Advocate accepted the foregoing CIAC balance.

Accordingly, the Parties stipulate to the foregoing CIAC balance for the Mauna Lani district,[305] which the Commission finds reasonable.

[302]See Application, Exhibit No. 14-T-100 at 28; and Exhibit 8-3.

[303]Stipulation at 46.

[304]See Application, Exhibit No. 14-T-100 at 38; and Exhibit 8-3.

[305]Stipulation at 47.

c.

Waimea

HAWC proposed a CIAC average balance of $0.[306] The Consumer Advocate accepted the foregoing CIAC balance.

Accordingly, the Parties stipulate to the foregoing CIAC balance for the Waimea district.[307] which the Commission finds reasonable.

4.

Accumulated Deferred Income Taxes ("ADIT")

a.

Hawaii Kai

HAWC proposed an ADIT balance of $4,440,923 based on actual balance of deferred taxes through end of 2023 and estimated deferred taxes in 2024 and 2025.[308] The Consumer Advocate recommended corresponding adjustments to reflect the removal of capital contingencies and other rate base adjustments.[309]

[306]See Application, Exhibit No. 14-T-100 at 49; and Exhibit 8-3.

[307]Stipulation at 47.

[308]See Application, Exhibit No. 14-T-100 at 29; and Exhibit 8-4.

[309]See CA Direct Testimonies, Exhibit CA-T-2 at 29; and Schedule CA-HK-207.

As discussed above, the Parties agreed to remove the capital contingencies using HAWC methodology.

Accordingly, the Parties stipulate to an updated ADIT balance of $4,437,688 for the Hawaii Kai district,[310] which the Commission finds reasonable.

b.

Mauna Lani

HAWC proposed an ADIT balance of $868,712 based on actual balance of deferred taxes through end of 2023 and estimated deferred taxes in 2024 and 2025.[311] The Consumer Advocate recommended corresponding adjustments to reflect the removal of capital contingencies and other rate base adjustments.[312] As discussed above, the Parties agreed to remove the capital contingencies using HAWC methodology.

Accordingly, the Parties stipulate to an updated ADIT balance of $868,606 for the Mauna Lani district,[313] which the Commission finds reasonable.

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[310]Stipulation at 47.

[311]See Application, Exhibit No. 14-T-100 at 29; and Exhibit 8-4.

[312]See CA Direct Testimonies, Exhibit CA-T-2 at 39; and Schedule CA-ML-207.

[313]Stipulation at 48.

c.

Waimea

HAWC proposed an ADIT balance of $445,100 based on actual balance of deferred taxes through end of 2023 and estimated deferred taxes in 2024 and 2025.[314] The Consumer Advocate recommended corresponding adjustments to reflect the removal of capital contingencies and other rate base adjustments.[315] As discussed above, the Parties agreed to: (1) remove capital contingencies using HAWC methodology; and (2) an excess capacity adjustment of 20.8% in this proceeding for ratemaking purposes only, incorporated using HAWC methodology to apply the adjustment to 2025 mid-year plant balances for related plant accounts identified in the Consumer Advocate's testimony.

Accordingly, the Parties stipulate to an updated ADIT balance of $322,176 for the Waimea district,[316] which the Commission finds reasonable.

[314]See Application, Exhibit No. 14-T-100 at 29; and Exhibit 8-4.

[315]See CA Direct Testimonies, Exhibit CA-T-2 at 50; and Schedule CA-W-207.

[316]Stipulation at 49.

5.

Unamortized Hawaii General Excise Tax ("GET") Credit

a.

Hawaii Kai

HAWC proposed an unamortized Hawaii GET credit of $372,617 based on actual incurred tax credits and estimated credits for tax years 2023 through 2025.[317] The Consumer Advocate did not recommend any adjustments.[318] However, the Parties agree to update the Hawaii GET credit balance to reflect other rate base adjustments consistent with this settlement.

Accordingly, the Parties stipulate to an unamortized Hawaii GET credit balance of $372,617 for the Hawaii Kai district,[319] which the Commission finds reasonable.

b.

Mauna Lani

HAWC proposed an unamortized Hawaii GET credit of $159,277 based on actual balance of deferred taxes through end of

[317]See Application, Exhibit No. 14-T-100 at 36; and Exhibit 8.

[318]See CA Direct Testimonies, Exhibit CA-T-2 at 29; and Schedule CA-HK-207.

[319]Stipulation at 49.

2023 and estimated deferred taxes in 2024 and 2025.[320] The Consumer Advocate did not recommend any adjustments.[321] However, the Parties agree to update the Hawaii GET credit balance to reflect other rate base adjustments consistent with this settlement.

Accordingly, the Parties stipulate to an unamortized Hawaii GET credit balance of $159,277 for the Mauna Lani district,[322] which the Commission finds reasonable.

c.

Waimea

HAWC proposed an ADIT balance of $29,715 based on actual balance of deferred taxes through end of 2023 and estimated deferred taxes in 2024 and 2025.[323] The Consumer Advocate noted a de minimis adjustment of about $633 due to disallowance of certain plant contingencies.[324] As such, the Parties agree to update the

[320]See Application, Exhibit No. 14-T-100 at 36; and Exhibit 8.

[321]See CA Direct Testimonies, Exhibit CA-T-2 at 40; and Schedule CA-ML-207.

[322]Stipulation at 49.

[323]See Application, Exhibit No. 14-T-100 at 36; and Exhibit 8.

[324]See CA Direct Testimonies, Exhibit CA-T-2 at 51; and Schedule CA-W-207.

Hawaii GET credit balance to reflect other rate base adjustments consistent with this settlement.

Accordingly, the Parties stipulate to an unamortized Hawaii GET credit balance of $29,715 for the Waimea district,[325] which the Commission finds reasonable.

6.

Cash Working Capital ("CWC")

a.

Hawaii Kai

HAWC proposed a CWC allowance of $207,475 based on its forecasted expense levels and results of the lead lag study.[326] The Consumer Advocate accepted HAWC's calculation methodology and recommended several adjustments. Specifically, the Consumer Advocate removed the inclusion of depreciation expense and deferred income taxes from the CWC calculation because these items do not require continuing cash payments.[327] HAWC provided rebuttal testimony but ultimately accepted the foregoing adjustments in the interest of reaching a settlement on this issue.

[325]Stipulation at 50.

[326]See Application, Exhibit No. 14-T-100 at 62; and Exhibit 8-6.

[327]See CA Direct Testimonies, Exhibit CA-T-2 at 32-34; and Schedule CA-HK-208.

Accordingly, the Parties stipulate to an updated CWC balance of -$111,740 for the Hawaii Kai district,[328] which the Commission finds reasonable.

b.

Mauna Lani

HAWC proposed a CWC allowance of $127,750 based on its forecasted expense levels and results of the lead lag study.[329] The Consumer Advocate accepted HAWC's calculation methodology and recommended several adjustments. Specifically, the Consumer Advocate removed the inclusion of depreciation expense and deferred income taxes from the CWC calculation because these items do not require continuing cash payments.[330] HAWC provided rebuttal testimony but ultimately accepted the foregoing adjustments in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to an updated CWC balance of $45,115 for the Mauna Lani district,[331] which the Commission finds reasonable.

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[328]Stipulation at 50.

[329]See Application, Exhibit No. 14-T-100 at 62; and Exhibit 8-6.

[330]See CA Direct Testimonies, Exhibit CA-T-2 at 32-34; and Schedule CA-HK-208.

[331]Stipulation at 51.

c.

Waimea

HAWC proposed a CWC allowance of $57,110 based on its forecasted expense levels and results of the lead lag study.[332] The Consumer Advocate accepted HAWC's calculation methodology and recommended several adjustments. Specifically, the Consumer Advocate removed the inclusion of depreciation expense and deferred income taxes from the CWC calculation because these items do not require continuing cash payments.[333] HAWC provided rebuttal testimony but ultimately accepted the foregoing adjustments in the interest of reaching a settlement on this issue.

Accordingly, the Parties stipulate to an updated CWC balance of $19,400 for the Waimea district,[334] which the Commission finds reasonable.

H.

Rate Design and Step Increase Period

HAWC requested to maintain its current rate designs and proposed equal magnitude increases across customer classes.

[332]See Application, Exhibit No. 14-T-100 at 62; and Exhibit 8-6.

[333]See CA Direct Testimonies, Exhibit CA-T-2 at 52-55; and Schedule CA-W-208.

[334]Stipulation at 52.

The Consumer Advocate did not object to this request, with the exception of proposing a step increase period for Mauna Lani.[335]

As part of their settlement and in the interest of mitigating potential "rate shock" to customers, the Parties stipulate to HAWC's proposed rate design and agree to a step increase period for the stipulated rate increase for the Mauna Lani district.[336] The first step of the rate increase would be effective upon Commission approval. The second step would be six months after the effective date of the first step. [337]

Because the Parties stipulated to the step increase period for the rate increase for the Mauna Lani district, the Commission will not impose a different result based on the limited record before it. However, the Commission observes that a step increase period as short as six months is unlikely to significantly alleviate the impact of the rate increase on customers. In all future proceedings, the Commission urges utilities and the Consumer Advocate to consider step increase periods that are at least one year.

[335]CA Direct Testimonies, Exhibit CA-T-4 at 3-4 and 22-23.

[336]Stipulation at 53.

[337]See id.

I.

Tariff Changes

1.

Catastrophic Event Cost Tracking Mechanism ("CETM") (All Districts)

As part of the Application, HAWC requested approval to implement CETM to record and later request recovery in a subsequent rate case all costs associated with declared natural disasters.[338] In its Direct Testimonies, the Consumer Advocate objected to this request asserting that HAWC could book and defer any disaster related costs and request recovery in a future rate case proceeding.[339]

HAWC agreed to withdraw this request without prejudice in the interest of reaching a settlement. Accordingly, HAWC no longer requests approval of the CETM before the Commission in its final decision and order.[340]

[338]See Application, Exhibit No. 14-T-200 at 52-54.

[339]See CA Direct Testimonies, Exhibit CA-T-2 at 20.

[340]Stipulation at 52-53.

2.

Annual Power Cost Adjustment Mechanism
(Mauna Lani and Waimea Districts)

As part of the Application, HAWC requested implementation of the APCAC for the Mauna Lani and Waimea districts to recover electrical power costs.[341] The Commission previously approved the APCAC mechanism for HAWC's Hawaii Kai district in its last rate case (Docket No. 2021-0063, Decision and Order No. 38424). The Consumer Advocate does not object to this request.[342] Accordingly, the Parties stipulate that the APCAC mechanism shall be included in all three of HAWC's wastewater districts,[343] which the Commission finds reasonable.

[341] See Application, Exhibit No. 14-T-200 at 48.

[342] See CA Direct Testimonies, Exhibit CA-T-2 at 22.

[343] Stipulation at 53.

3.

Non-Rate Design Proposed Tariff Modifications

HAWC proposes non-rate tariff modifications to the following tariff rules:

- Hawaii Kai: None.[344]
- Mauna Lani: (1) Section 1.2.b., k., m., p., q., r., s.[345]
- Waimea: (1) Rules and Regulations – Foreword; (2) Rule I.1., 2., 7., 8.-15.; (3) Rule II.1., 2.-7.; (4) Rule III.1.-2.; (5) Rule IV.1., 2.d; (6) Rule IV.3; (7) Rule IV.3.b, f, h, i, i.3; (8) Rule IV.4; (9) Rule IV.4.d; Rule IV.5-9; (10) Rule V.1-5, 7; (11) Rule VI; (12) Rule VII; (13) Rule VIII; (14) Rule IX; (15) Rule X; (16) Rule XI; (17) Rule XII; (18) Rule XII.3.-4.,6., 10-12; (19) Rule XIII; and (20) Rule XIII.1.-2., 3.d, 6.c. 6.e, 7.[346]

The proposed non-rate tariff modifications to the Mauna Lani tariff are to include and specifically provide rules pertaining to homeowner associations and condominium associations as well as define the term "Notice of discontinuance."[347]

[344]See Application, Exhibit 13 at 1-32.

[345]See Application, Exhibit 13 at 64-102.

[346]See Application, Exhibit 13 at 141-194. The Commission notes that the document page title located at the top right of the page is absent between Exhibit 13 at 189 to Exhibit 13 at 195.

[347]See Application, Exhibit 13 at 64-102.

The proposed non-rate tariff modifications to the Waimea tariff are largely to make the Waimea District tariff consistent with the Hawaii Kai tariff.[348]

The Consumer Advocate did not address any of HAWC's proposed non-rate modifications to the Mauna Lani and Waimea tariffs in its Direct Testimonies.[349]

While the Stipulation does not appear to address HAWC's proposed non-rate modifications to the Mauna Lani and Waimea tariffs, the Commission, upon review of said proposed changes, finds them to be reasonable.

J.

Other Issues

As part of this settlement, the Parties agree to the following:[350]

• Uniform Rates: HAWC agrees to investigate the costs and impacts to customers of moving toward uniform rates across all wastewater districts, and to report on findings a reasonable amount of time before the notice of intent is filed for next rate case.

[348]See Application, Exhibit 13 at 141-194. The Commission notes that the document page title located at the top right of the page is absent between Exhibit 13 at 189 to Exhibit 13 at 195.

[349]See CA Direct Testimonies.

[350]Stipulation at 54-55.

• Depreciation Analysis: HAWC agrees to perform a depreciation study, on a consolidated basis for all three districts, as part of the next rate case[351].

• Sewer Rate Design (Waimea): HAWC agrees to investigate the costs and impacts to residential customers of developing a residential rate structure tying the fixed charge to water usage, and to report on such findings in a reasonable amount of time before the notice of intent is filed for the next rate case.

• Sewer Rate Design (Mauna Lani): at this time, HAWC does not have access to the Mauna Lani commercial class water usage data (either historically or currently) necessary to develop a commercial rate structure tying the fixed charge to water usage as part of this GRC proceeding. If the necessary information, including for irrigation usage, is made available from the Mauna Lani resort, HAWC commits to develop this rate structure for inclusion in the next rate case.

• Annual Capital Improvements Report (Waimea): The HOA has raised the issue of a business case or cost/benefit analysis for any investment. The settlement Parties have discussed the

[351]The Commission notes that while the parties have agreed in the Stipulation that HAWC will perform a depreciation study on a consolidated basis for the Hawaii Kai, Mauna Lani, and Waimea districts, the Commission's acceptance of the Stipulation for purposes of resolving this rate case request does not constitute pre-approval in a future proceeding for either consolidation of depreciation rates or consolidation of a general rate increase.

following proposal to at least partly address the HOA's concern. HAWC agrees to file, by the end of January 2026, an annual report providing a brief description of each capital improvement project with an expenditure estimated to exceed $100,000 planned for that calendar year. Each brief description will include a project justification, which will highlight any project-associated operation cost savings, if applicable, among other project benefits or justifications based on project need. HAWC agrees to file this annual report for three years, starting in January 2026, or until the next rate case is filed, whichever comes first.

• Rate Case Timing: HAWC agrees to file its next rate case within three years following the effective date of the final rate increase for any of its districts, unless otherwise ordered by the Commission.[352] Relatedly, HAWC reserves its right to seek a continuance for good cause.

The Commission finds the foregoing stipulations reasonable and approves them.

[352]The Commission clarifies, though, that its acceptance of this Stipulation provision does not convey preapproval for consolidating the Hawaii Kai, Mauna Lani, and Waimea district rate case applications in a future proceeding.

K.

Outstanding Issue – Capital Infrastructure Surcharge Mechanism ("CISM") (All Districts)

In its Application, HAWC requested approval to add the CISM to support continuing investments in infrastructure and allow full cost recovery of projects completed in the 2025 Test Year.[353] The Parties note that settlement has not been reached on this issue, and as such, they have agreed to rest on the record and allow the Commission to adjudicate this issue without further briefing by the Parties.[354]

According to HAWC, the CISM would facilitate smaller, more gradual rate increases by annually updating eligible capital expenditures completed in the prior calendar year, and would implement a surcharge to recover HAWC's return and related revenue requirement on those investments.[355] Additionally, HAWC's customers face the prospect of more frequent rate cases to provide recovery of the Company's investments, and the avoided rate case costs coupled with a more gradual CISM implementation process create a significant benefit for a system of HAWC's size

[353]Stipulation at 52, wherein the Parties note that the Consumer Advocate objected to this request.

[354]Stipulation at 52.

[355]Application at 11-13.

and will contribute to mitigating significant rate increases for its customers.[356]

The Consumer Advocate objected to HAWC's request and recommended that HAWC's proposed CISM not be implemented. In support of this position, the Consumer Advocate contends that the CISM would: (1) reduce or eliminate the ability of the Commission and Parties to review and evaluate capital expenditure projects prior to their costs being recovered, which are currently done through rate cases[357]; (2) diminish the incentive for HAWC to pursue least-cost operating expenses and capital expenditures[358]; and (3) result in increased administrative burden for the Commission and Consumer Advocate.[359]

While the Commission acknowledges the use of surcharges in Hawaii and throughout the country, the Commission views surcharges as tools that should be used sparingly. In this instance, the Commission agrees with the concerns raised by the Consumer Advocate, particularly those relating to the reduced scrutiny of capital expenditures prior to being collected from

[356]Application, Exhibit No. 14-T-100 at 71.

[357]CA Direct Testimonies, Exhibit CA-T-2 at 18-19; see also Exhibit CA-T3 at 57-63.

[358]CA Direct Testimonies, Exhibit CA-T-4 at 24-25.

[359]CA Direct Testimonies, Exhibit CA-T-4 at 25.

ratepayers and the additional administrative burden this would place on the Commission and Consumer Advocate. Under HAWC's proposal, it would submit CISM annual filings within 60 days prior to the end of the calendar year, after which the Commission and the Consumer Advocate would have 30 days to review and approve this filing. To the Consumer Advocate's point, unlike in a general rate case, where scrutiny is applied to all proposed additions to rate base prior to allowing them to be incorporated into base rates, the CISM would provide for a much shorter window within which to review the prudency of a proposed CISM project. Compared to a rate case, which offers between six to nine months prior to rendering a decision,[360] 30 days is a significantly shorter period within which to solicit input and analysis from the Consumer Advocate and allow for deliberative review by the Commission. This would be exacerbated in instances where multiple projects were sought to be recovered through the CISM, which would correspondingly tax the Consumer Advocate's and Commission's resources. This risks allowing projects that have not been properly vetted to be collected from customers via the proposed surcharge. Alternatively, this could result in a situation where the Commission frequently denies CISM requests due to lack of

[360] See HRS §§ 269-16(d) and -16(f), which provides for alternative deadlines for a Commission decision based on the utility's annual gross income.

sufficient time and record to support approval, which would ultimately frustrate the purpose of the CISM.[361]

For the foregoing reasons, HAWC has not persuaded the Commission that the CISM, as it is proposed and designed, is appropriate. As such, the Commission denies HAWC's request to add a new rule to its tariffs for the CISM.

Notwithstanding the above, the Commission acknowledges HAWC's position that general rate cases may not be the most efficient means to address increasing infrastructure needs.[362] The Commission appreciates HAWC's efforts in proposing an alternative mechanism to address this concern and clarifies that it is open to exploring ways to address these challenges in collaboration with the Consumer Advocate and other interested stakeholders.

L.

Commission Approval

The Parties' stipulated rate increase, as set forth in the Stipulation, provides HAWC with a reasonable opportunity to

[361] C.f. HAWC Rebuttal Testimonies, Exhibit SWO RT-100 at 7 (stating that "If a proposed capital investment is denied by the Commission in a CISM application, that particular investment would be addressed in HAWC's next base rate filing.").

[362] See HAWC Direct Testimonies, Exhibit 14-T-100 at7-71.

earn its 2025 Test Year revenue requirements of $12,650,680 for Hawaii Kai, $2,142,880 for Mauna Lani, and $695,030 for Waimea.[363] 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. Accordingly, for purposes of this proceeding, the Commission approves the Stipulation consistent with the terms of this Decision and Order. That being said, this approval is limited for purposes of resolving the requests in this proceeding and does not constitute preapproval of any future requests.

IV.

SUMMARY OF FINDINGS AND CONCLUSIONS

The Commission finds and concludes:

1. HAWC's 2025 Test Year revenues and expenses for its Hawaii Kai, Mauna Lani, and Waimea districts, as set forth in the results of operations schedules attached hereto as Exhibits PUC-A, PUC-B, and PUC-C, respectively, are reasonable.

A. HAWC is entitled to an increase of $594,290 or approximately 4.93% over revenues at present rates for its Hawaii Kai district.

[363]Stipulation at 7.

B. HAWC is entitled to an increase of $765,100 or approximately 55.53% over revenues at present rates for its Mauna Lani district.

C. HAWC is entitled to an increase of $100,530 or approximately 16.91% over revenues at present rates for its Waimea district.

2. The Parties' stipulated rate design, as set forth herein, including the step increase period for the Mauna Lani rate increase, is reasonable.

3. The Parties' stipulated ROE of 9.75%, a cost of debt of 3.96%, and a capital structure of 52.11% equity and 47.89% debt, which results in a stipulated ROR of 6.97%, are reasonable.

4. Inclusion of the annual power cost adjustment mechanism (i.e., the APCAC) in all three of HAWC's wastewater districts is reasonable.

5. HAWC's non-rate design proposed tariff modifications, as set forth herein, are reasonable.

6. As the Parties stipulated, HAWC shall investigate the costs and impacts to customers of moving toward uniform rates across all wastewater districts, and within a reasonable amount of time before the notice of intent is filed for its next rate case, report on its findings. This report shall be filed in this docket.

7. Although HAWC does not have access to the Mauna Lani commercial class water usage data (either historically or currently) necessary to develop a commercial rate structure tying the fixed charge to water usage as part of this GRC proceeding at this time, if the necessary information, including for irrigation usage, becomes available from the Mauna Lani resort, HAWC shall develop this rate structure for inclusion in the next rate case.

8. HAWC shall file rate case applications for its Hawaii Kai, Mauna Lani, and Waimea districts within three years following the effective date of the final rate increase for any of its districts, unless otherwise ordered by the Commission. HAWC shall also have the right to seek a continuance for good cause.

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

V.

ORDERS

THE COMMISSION ORDERS:

1. The Parties' Stipulation, filed on April 25, 2025, is approved, consistent with the terms of this Decision and Order.

2. HAWC may increase its rates and charges as follows for its three districts:

A. For its Hawaii Kai district, HAWC is entitled to an increase of $594,290 or approximately 4.93% over revenues at present rates, as shown in Exhibit PUC-A, based on a 2025 Test Year revenue requirement of $12,650,680.

B. For its Mauna Lani district, HAWC is entitled to an increase of $765,100 or approximately 55.53% over revenues at present rates, as shown in Exhibit PUC-B, based on a 2025 Test Year revenue requirement of $2,142,880.

C. For its Waimea district, HAWC is entitled to an increase of $100,530 or approximately 16.91% over revenues at present rates, as shown in Exhibit PUC-C, based on a 2025 Test Year revenue requirement of $695,030.

3. HAWC shall investigate the costs and impacts to customers of moving toward uniform rates across all wastewater districts, and report on findings a reasonable amount of time before the notice of intent filed for next rate case. This report shall be filed in this docket.

4. If the information regarding Mauna Lani commercial class water usage (either historically or currently) necessary to develop a commercial rate structure tying the fixed charge to water usage becomes available from the Mauna Lani resort, HAWC shall develop this rate structure for inclusion in the next rate case.

5. HAWC shall file rate case applications for its Hawaii Kai, Mauna Lani, and Waimea districts within three years following the effective date of the final rate increase for any of its districts, unless otherwise ordered by the Commission. HAWC shall also have the right to seek a continuance for good cause.

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

7. 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.

8. This docket is closed; however, HAWC 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 JULY 24, 2025.

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:

_____
Melissa M. Mash
Commission Counsel

2024-0038.ljk

CERTIFICATE OF SERVICE

The foregoing 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.

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