

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application )  
 )  
 of ) Docket No. 2010-0313  
 )  
 HAWAII-AMERICAN WATER COMPANY )  
 )  
 For Approval of Rate Increases and Revised )  
 Rate Schedules and Rules. )  
 )  
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APPLICATION  
EXHIBITS 1 THROUGH 14  
ATTACHMENTS  
VERIFICATION  
and  
CERTIFICATE OF SERVICE

PUBLIC UTILITIES  
COMMISSION

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FILED

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HAWAII-AMERICAN WATER COMPANY

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**APPLICATION**

To the HONORABLE PUBLIC UTILITIES COMMISSION OF THE STATE OF  
HAWAII:

1. Applicant's full name and business mailing address are as follows:

HAWAII-AMERICAN WATER COMPANY  
6700 Kalaniana'ole Highway  
Suite 206  
Honolulu, HI 96825

2. Pleadings, correspondence, notices and other communications concerning  
this Application are to be addressed to:

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HAWAII-AMERICAN WATER COMPANY

3. Applicant, HAWAII-AMERICAN WATER COMPANY ("Applicant" or  
"Hawaii American"), is a public utility authorized by the Commission since 1974 to

provide wastewater collection, treatment, and disposal service to the residences, condominiums, and commercial establishments in the Hawaii Kai community on the island of Oahu, State of Hawaii (“Hawaii Kai operations”).<sup>1</sup> Applicant is a Nevada corporation, with its principal place of business in Hawaii at 6700 Kalanianaʻole Highway, Suite 206, Honolulu, Hawaii 96825. Applicant’s sole shareholder is American Water Works Company, Inc. (“American Water”), a Delaware corporation.<sup>2</sup> Applicant operates as part of American Water’s Western Region, which includes American Water’s largest wastewater utility operations.<sup>3</sup>

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<sup>1</sup> On March 31, 2006, the sale and transfer of Mauna Lani STP, Inc.’s (“Mauna Lani”) assets (including, without limitation, Mauna Lani’s Certificate of Public Convenience and Necessity) from Mauna Lani to Hawaii American (which the Commission approved on February 28, 2006) was consummated and made effective. See In re Mauna Lani STP, Inc. and Hawaii-American Water Company, Docket No. 05-0229, Decision and Order No. 22299, filed on February 28, 2006 (“Decision and Order No. 22299”). As such, Hawaii American is also authorized to provide wastewater services to residents and occupants of the Mauna Lani Resort on the island of Hawaii (“Mauna Lani operation”), which is treated as a separate operating division from Hawaii American’s existing Hawaii Kai operations. The proposed rate increase, described in this Application, will only affect Hawaii American’s Hawaii Kai operations and customers. Accordingly, consistent with Hawaii American’s statements made in its November 18, 2010 Notice of Intent filed in the subject docket to file a general rate increase application, pursuant to Hawaii Administrative Rules (“HAR”) § 6-61-85(a), the proposed rate increase will not affect Hawaii American’s Mauna Lani operations and customers on the island of Hawaii. Moreover, the instant Application has been filed consistent with the requirements and/or conditions set forth in Decision and Order No. 22299.

<sup>2</sup> Hawaii American was formerly known as East Honolulu Community Services, Inc. (“EHCSI”). In January 1998, the Commission approved American Water’s acquisition of all of the issued and outstanding shares of EHCSI. See In re Maunaloa Assoc., Inc., Docket No. 97-0339, Decision and Order No. 16175 (January 27, 1998).

<sup>3</sup> In April 2002, the Commission approved Thames Water Aqua Holdings GmbH (nka RWE Aqua Holdings GmbH) purchase of American Water’s stock. See In re Hawaii-American Water Co., Inc., Docket No. 02-0041, Decision and Order No. 19304 (April 17, 2002). In June 2006, the Commission subsequently approved: (1) the sale by RWE Aqua Holdings GmbH of up to 100% of the shares of American Water’s common stock through an initial public offering (“IPO”); and (2) prior to the closing or occurrence of the IPO, the merger of Thames Water Aqua U.S. Holdings, Inc. (“TWAUSHI”), which previously held all of the stock of American Water, with and into American Water, with American Water being the surviving entity. See In re Hawaii-American Water Company, Docket No. 2006-0095, Decision and Order No. 22511 (June 5, 2006). American Water’s shares began trading on the New York Stock Exchange on April 23, 2008, and as of November 17, 2009, RWE sold all of its shares of American Water common stock, thereby completing its contemplated divestiture. The merger of TWAUSHI with and into American Water has been consummated. See Hawaii American letters, dated July 8, 2008 and December 23, 2009, in Docket No. 2006-0095.

4. Applicant's current rates do not now and will not in the foreseeable future produce sufficient revenues to earn a fair rate of return.<sup>4</sup> At present rates,<sup>5</sup> Applicant projects a rate of return of 4.82 percent (4.82%), based on a net operating income of \$1,215,370 and an average rate base of \$25,218,480. See Exhibit 6 (lines 29 - 31, column 2).

5. Pursuant to Hawaii Revised Statutes ("HRS") § 269-16, as amended, Applicant seeks the approval of the Public Utilities Commission of the State of Hawai'i ("Commission") for rate increases and adjustments as set forth in Exhibit 4.<sup>6</sup> Applicant seeks an increase in total revenues of \$1,764,860, or approximately 20 percent (20%), over total revenues at present rates. See Exhibit 6 (line 7, column 3) and the testimony of Kenneth G. Polt (Exhibit No. 14-T-100). The

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<sup>4</sup> Applicant's current rates are based on interim rates that were approved and became effective as of October 10, 2008 in Interim Decision and Order, filed on October 10, 2008, in Docket No. 2007-0180 ("2007 Rate Case Interim Decision and Order"). In the 2007 Rate Case Interim Decision and Order, the Commission approved, on an interim basis, Applicant's request to increase its rates to such levels as will produce, in the aggregate, \$701,817 in additional revenues for the test year ending December 31, 2008 (i.e., an increase of 8.37% over revenues at present rates as established in that docket). A final decision and order in Docket No. 2007-0180 ("2007 Rate Case Docket") has not been issued and is currently pending before the Commission. Notwithstanding the above and for purposes of the instant Application, Applicant assumes that the interim rates approved by the Commission on October 10, 2008 will not be modified by the Commission's final decision and order in the 2007 Rate Case Docket, and as such refers to those rates herein as part of Applicant's present or current rates. This is consistent with the proposed final rates (which are unchanged from the interim rates) and process provided in the parties' Joint Request for Approval of their Stipulation of Settlement Agreement in Lieu of Rebuttal Testimonies, Evidentiary Hearing and Briefs ("Stipulation") and Stipulation et al., filed on January 21, 2011, in Docket No. 2007-0180.

<sup>5</sup> Id.

<sup>6</sup> On November 30, 2010, Applicant filed a motion with the Commission requesting approval to utilize the 2011 Calendar Test Year in lieu of a July 1, 2011 to June 30, 2012 test year (i.e., Mid-Year Test Year) as required under HAR § 6-61-87(4)(A). By Order Granting Motion to Allow the 2011 Calendar Year as the Test Year in Place of a Mid-Year Test Year, filed on January 4, 2011, the Commission approved Applicant's request, provided that Applicant files its application for a general rate increase by February 28, 2011.

justification and reasons for the proposed rate increases/adjustments are contained in the testimonies, exhibits, and workpapers attached to this Application.<sup>7</sup>

6. If approved, as set forth in the chart below, the present monthly service charge for single family residential units and multi-family residential units would increase from \$58.70 and \$49.95 per dwelling unit, respectively, to \$71.10 and \$60.50 per dwelling unit, respectively. See Exhibit 4. In addition, the present commercial (non-residential) monthly service rates/charges for: (1) food service operations would remain the same at \$14.10 per 1,000 gallons of water consumed; (2) non-food service operations (including Public Authority – Other) would increase from \$8.65 per 1,000 gallons of water consumed to \$10.45 per 1,000 gallons of water consumed; and (3) Public Authority – Dwelling would increase from \$3.26 per 1,000 gallons of wastewater treated to \$3.95 per 1,000 gallons of wastewater treated, respectively. See Exhibit 4. Consistent with Schedule of Present and Proposed Rates set forth as part of Exhibit 4, the following chart is a comparison of the present

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<sup>7</sup> Pursuant to the Protective Order, issued on February 8, 2011, in the above-referenced docket, Applicant also hereby designates Attachment 7-2 and Exhibit 7-10 as CONFIDENTIAL and subject to the terms and provisions of said Protective Order. The above-referenced confidential exhibit and attachment were prepared and/or provided by Applicant and its affiliates in Honolulu, Hawaii and/or Phoenix, Arizona. Said confidential attachments contain confidential research, development, commercial and financial information and/or other information that may be subject to non-disclosure pursuant to certain laws, rules and regulations. Any misuse or the unpermitted disclosure of the information in said confidential information attachments may infringe upon certain privacy and proprietary rights and/or expose Applicant and/or its related entities to unfair competitive disadvantages and to certain liabilities.

and proposed rates for Applicant's residential and commercial (non-residential)

customers:

<b>Customer Class</b>	<b>Current</b>	<b>Proposed</b>	<b>%age Change</b>
<u>Residential Units:</u>			
Single-Family Residential Unit (monthly service charge per dwelling unit)	\$58.70	\$71.10	21.12%
Multi-Family Residential Unit (monthly service charge per dwelling unit)	\$49.95	\$60.50	21.12%
<u>Commercial (Non-Residential) Units:</u>			
Food Service Operation	\$14.10 per 1,000 gallons of water consumed	\$14.10 per 1,000 gallons of water consumed	0.00%
Non-Food Service Operation (including Public Authority – Other <sup>8</sup> )	\$8.65 per 1,000 gallons of water consumed	\$ 10.45 per 1,000 gallons of water consumed	20.81%
Public Authority – Dwelling <sup>9</sup>	\$3.26 per 1,000 gallons of wastewater treated	\$3.95 per 1,000 gallons of wastewater treated	21.17%

<sup>8</sup> The Public Authority-Other class refers to the sewerage services provided by Hawaii American to the City and County of Honolulu ("City"), the State of Hawaii and other facilities (including parks, schools, fire station, and Lunalilo Home). Consistent with Hawaii American's Rules and Regulations filed with and approved by the Commission, the customers in Public Authority – Other have been and are included as part of the Commercial Non-Food Service Operation rate classification due to their customer type (i.e., non-residential) and usage (i.e., non-food service operation).

<sup>9</sup> The Public Authority – Dwelling class refers to the services provided by Hawaii American to the City for the City's residential customers in Hawaii Kai, including Kuliouou Valley, Portlock, Paiko, and other areas, which fall outside of Hawaii American's service territory, but which are served directly by the City's sewerage system and then connected to Hawaii American's wastewater collection, treatment, and disposal system for distribution and processing.

7. In accordance with HAR § 6-61-86 and/or HAR § 6-61-87,<sup>10</sup> Applicant hereby files and incorporates by reference the following exhibits:

- Exhibit 1** Financial statement under HAR § 6-61-75
- Exhibit 2** General description of Applicant's property and equipment for its Hawaii Kai operations
- Exhibit 3** Statement of original cost of Applicant's property and equipment for its Hawaii Kai operations, together with applicable depreciation reserve
- Exhibit 4** Schedule of Present and Proposed Rates
- Exhibit 5** Results of Operations 2009-2010 at Present Rates
- Exhibit 6** Revenue Requirement and Rate of Return Summary Schedules including applicable supporting workpaper (i.e., Attachment 6)
- Exhibit 7** Schedules for operating revenues and expenses, depreciation, and taxes that support the request for changed rates based on pro forma results of operations for the test year ended December 31, 2011, recorded at present rates and at proposed rates including applicable supporting workpapers (i.e., Attachments 7-1 through 7-4, and 7-7)
- Exhibit 8** Pro Forma Rate Base Schedules including applicable supporting workpapers (i.e., Attachments 8-4 and 8-5)
- Exhibit 9** RESERVED
- Exhibit 10** Rate of Return
- Exhibit 11** Statement regarding Internal Revenue Code of 1986

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<sup>10</sup> Applicant has annual gross operating revenues in excess of \$2,000,000. As such, the requirements set forth in HAR § 6-61-87 are applicable to this Application.

**Exhibit 12** Latest Annual Report to Stockholders and Latest Form 10(k), Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 filed with the Securities and Exchange Commission

**Exhibit 13** Latest Proxy Statement provided to Stockholders by Applicant or its parent company

**Exhibit 14** Written direct testimonies

- (1) Testimony of Kenneth G. Polt (Exhibit No. 14-T-100)
- (2) Testimony of Travis J. Nuttall (Exhibit No. 14-T-200)
- (3) Testimony of Lee A. Mansfield (Exhibit No. 14-T-300)
- (4) Testimony of Thomas M. Broderick (Exhibit No. 14-T-400)
- (5) Testimony of Christopher D. Krygier (Exhibit No. 14-T-500)

8. Specifically, if this Application is approved, Applicant proposes to amend and replace its Schedule of Wastewater Rates found on Sheet 18 of its existing Rules and Regulations with a revised Schedule of Wastewater Rates reflecting the rates and rate structure proposed by Applicant in this proceeding (Exhibit 4), as may ultimately be approved or modified by the Commission in this proceeding.

9. The proposed increased rates reflect and pass through to customers increased costs to Applicant of furnishing wastewater service, including cost of capital.

10. Applicant believes that its proposed rates for its customers are justified and that they are just and reasonable.

WHEREFORE, Applicant prays as follows:

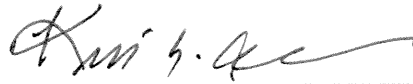
1. That, pursuant to HAR § 6-61-87, this Application be deemed a completed Application under HRS § 269-16, as amended.
2. That a public hearing be conducted on the island of Oahu to consider this Application, all in accordance with HRS §§ 269-12 and 269-16.
3. That the Commission find that Applicant's present rates for its customers are unjust and unreasonable and will not provide a fair return to Applicant on Applicant's rate base which is actually used or useful for public utility purposes.
4. That the Commission approve the following: (1) increases in the monthly service rates/charges for single-family residential units and multi-family residential units to \$71.10 and \$60.50 monthly service charges per dwelling unit, respectively; and (2) increases in the commercial (non-residential) monthly service rates/charges for non-food service operations (including Public Authority – Other) and Public Authority – Dwelling, to \$10.45 per 1,000 gallons of water consumed, and \$3.95 per 1000 gallons of wastewater treated, respectively.<sup>11</sup>
5. That the Commission approve the proposed revisions to Sheet 18 of Applicant's existing Rules and Regulations (Schedule of Wastewater Rates) to reflect the rates and rate structure approved by the Commission in this proceeding, as further described in Paragraph 6 above and the supporting testimonies and exhibits hereto.

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<sup>11</sup> As indicated above and in the Schedule of Present and Proposed Rates set forth as part of Exhibit 4, Applicants do not propose any changes at this time to its existing commercial (non-residential) monthly service rates/charges of \$14.10 per 1000 gallons of water consumed for food service operations.

6. That Applicant be granted such other and further relief, including any interim rate increase, as may be just and equitable.

DATED: Honolulu, Hawaii, February 22, 2011.



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KENT D. MORIHARA  
MICHAEL H. LAU  
KRIS N. NAKAGAWA  
LAUREN M. IMADA-LEE  
Morihara Lau & Fong LLP

Attorneys for Applicant  
HAWAII-AMERICAN WATER COMPANY



CERTIFICATE OF SERVICE

I hereby certify that on this date, copies of the foregoing were served on the following, at its respective address, by means as indicated:

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS      4 COPIES  
DIVISION OF CONSUMER ADVOCACY                              VIA HAND DELIVERY  
335 Merchant Street, Room 326  
Honolulu, HI 96813

HONORABLE PETER B. CARLISLE                                      1 COPY  
Honolulu Hale    VIA HAND DELIVERY  
530 S. King Street  
Room 300  
Honolulu, HI 96813

DATED: Honolulu, Hawaii, February 22, 2011.



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MICHAEL H. LAU  
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