

## MINUTES

### DEPARTMENT OF WATER SUPPLY COUNTY OF HAWAI'I WATER BOARD MEETING

January 23, 2007

#### HILO OPERATIONS CENTER CONFERENCE ROOM

MEMBERS PRESENT: Mr. Thomas Goya, Chairman  
Mr. Riley Smith, Vice-Chairman  
Ms. Millie Kim  
Mr. George Harai  
Ms. Paula Helfrich  
Mr. Bernard Konanui  
Mr. Dwayne Mukai  
Mr. Loren Heck  
Mr. George Wilkins  
Mr. Milton D. Pavao, Manager, Department of Water Supply  
(ex-officio member)

ABSENT: Mr. Christopher Yuen, Director, Planning Department  
(ex-officio member)  
Mr. Bruce McClure, Director, Department of Public Works  
(ex-officio member)

OTHERS PRESENT: Ms. Katherine Garson, Deputy Corporation Counsel  
Mr. Richard Cuthbert, R. W. Beck, Inc.  
Mr. Eric Willis, Kona Community Hospital  
Mr. Bill Brooks  
Mr. Guido Giacometti

#### Department of Water Supply Staff

Mr. Quirino Antonio, Jr., Deputy Manager  
Mr. Kurt Inaba, Engineering Division Head  
Mr. Keith Okamoto, Engineering Division  
Mr. Lawrence Beck, Engineering Division  
Mr. Ryan Quitariano, Engineering Division  
Mr. Chris Pacheco, Engineering Division (11:30 a.m.)  
Mr. Clyde Young, Operations Division  
Ms. Bettina Arrigoni, Operations Division  
Mr. Richard Tsunoda, Waterworks Controller  
Mr. Richard Sumada, Assistant Waterworks Controller

CALL TO ORDER - Chairman Goya called the meeting to order at 10:07 a.m. and introduced the Board's newest member, Mr. Dwayne Mukai, replacing Mr. Ivan Mochida, District 4. He also asked

staff to introduce the newest additions to the Department. Mr. Young introduced Ms. Bettina Arrigoni, Energy Analyst; and Mr. Inaba introduced Mr. Ryan Quitoriano, licensed engineer in the Engineering Division, Water Resources and Planning Branch.

#### STATEMENTS FROM THE PUBLIC (*verbatim*)

1) Mr. Eric Willis:

E. WILLIS: Good morning everyone. The hospital still has its same concerns about the water pressure. I know some staff members from Milton's staff have been out doing pressure ratings, I believe; and at this point, we haven't had any feedback. Our water pressure is still a main concern as well as possibly a leak and the backflow device. Also a concern is HELCO's ability to provide power and to provide power to the pumps for the well. So we're still hoping there is going to be a positive outcome from all this. We are also wondering if there is any possibility of seeking any funds from FEMA for a cogeneration plant at the well. That is where we are at, at this point.

M. PAVAO: If I may just add comments. One of the Agenda items today is directly related to generators at the Halekii Well Site that would provide power to that well site should we lose HELCO power. So that is one step closer to providing a more dependable service to the hospital. As far as our personnel, we did check the line, we didn't find any leaks on the line itself. That is the feedback I got. They are still looking into the alternative backflow prevention to see if we can change that because that does eat up a lot of pressure. We haven't found anything suitable yet, but we are working on it. We are also -, after we got all this initial investigation -, we will schedule a meeting with you folks, DAGS, and the hospital people. So it's still ongoing.

E. WILLIS: Yes sir. I spoke with some members of FEMA and with the mitigation through their 406 Planning, that might be an alternative for funding. So I hope we can look into that. I know dollars are always an issue, and our government shares or say, well...help us out.

M. PAVAO: As far as FEMA, I think you would have to deal with FEMA direct. What we are doing is we're working on a grant given to us for cogeneration. And as I said, it's on the Agenda today; directly related to that.

E. WILLIS: Okay. And thanks for your time.

Chairman Goya stated that he appreciated Mr. Willis' making the trip over from Kona and for working with the Department towards a solution. He asked if the Board would mind bringing the related Agenda item up to accommodate Mr. Willis, when the time is appropriate. The Board agreed.

#### APPROVAL OF MINUTES

ACTION: Mr. Smith moved for approval of the Minutes of the December 19, 2006, Water Board Meeting; seconded by Mr. Wilkins and carried unanimously by voice vote.

ADDITION OF ADDENDUM AND SUPPLEMENTAL AGENDA:

ACTION: Mr. Harai moved to add Addendum Item 5(b) SOUTH HILO, Job No. 2004-856, WAIAKEA OFFICE PLAZA RENOVATION AND REPAIR, to the Agenda; seconded by Ms. Kim and carried unanimously by roll call vote (Ayes: 9 - Mss. Kim and Helfrich, Messrs. Heck, Harai, Konanui, Mukai, Smith, Wilkins, and Chairman Goya; Nays: 0).

ACTION: Mr. Harai moved to add Addendum Item 8(g) MISCELLANEOUS, EMERGENCY BACKUP POWER FOR CRITICAL SITES (JOB NO. 2006-900), to the Agenda; seconded by Mr. Smith and carried unanimously by roll call vote (Ayes: 9 - Mss. Kim and Helfrich, Messrs. Heck, Harai, Konanui, Mukai, Smith, Wilkins, and Chairman Goya; Nays: 0).

ACTION TO ADD SUPPLEMENTAL: Ms. Kim moved to add the Supplemental Agenda to the Agenda; seconded by Mr. Harai and carried unanimously by voice vote.

ACTION TO MOVE AGENDA ITEM UP:

ACTION: Mr. Harai moved to take up Agenda Item G, MISCELLANEOUS, Emergency Backup Power for Critical Sites (Job No. 2006-900); seconded by Mr. Heck and carried unanimously by voice vote.

MISCELLANEOUS:

**G. EMERGENCY BACKUP POWER FOR CRITICAL SITES (JOB NO. 2006-900)  
EWO: 2007-041:**

---

The County is providing \$2 million for the purchase of emergency standby generation equipment for critical well sites islandwide. The funds are for the purchase of equipment only. The County will do the actual purchasing of the equipment. Timing is critical. The funds need to be committed by the end of June 2007 or the Department of Water Supply (DWS) will lose the use of these funds.

The DWS is responsible for the funds for design and infrastructure. The cost of design and infrastructure is estimated to be \$500,000.00. We are requesting that the funds for design and infrastructure be made available from the following sources:

1. \$275,000.00 from the Kaloko Hydro Project. These funds have been made available due to the additional award of funding of \$275,000.00 by USDA.
2. \$225,000.00 from the General Obligation Bond to cover the remaining estimated costs.

The Manager is recommended that the Board approve the reallocation of funds and the design and infrastructure for emergency backup power for critical well sites islandwide as they are not on the current 5-year capital improvement projects list.

MOTION: Mr. Smith moved for approval of the Manager's recommendation; seconded by Mr. Wilkins.

There were some questions about starting up of the generators and what sites they would be designated.

Staff explained that they would be started manually. That way, staff can go to the site and assess damages first, if there was a natural disaster, and decide if it is okay to start them up. They will also be started up periodically and checked. The sites would be Halekii for one, which would help Kona Community Hospital, and the others would help well sites serving Hilo and Waimea hospitals.

Mr. Smith noted that usually the recommendation stands alone; but for this item, there is no dollar amount included in the recommendation.

The Manager apologized for that and recommended that it be revised to reflect the dollar amount.

MOTION TO AMEND RECOMMENDATION: Mr. Smith moved to amend his Motion to read, “It is recommended that the Board approve an expenditure of \$500,000.00 for the design and infrastructure for emergency backup power for critical well sites islandwide as they are not on the current 5-year capital improvement projects list”; seconded by Ms. Kim.

ACTION ON AMENDMENT: A vote was taken on the amendment; carried unanimously by voice vote.

ACTION: A vote was taken on the Motion, as amended, to approve an expenditure of \$500,000.00 for the design and infrastructure for emergency backup power for critical well sites islandwide as they are not on the current 5-year capital improvement projects list. Motion was carried unanimously by voice vote.

(Mr. Willis thanked the Board and the Department on behalf of the Kona Community Hospital and left the meeting at 10:30 a.m.)

## SOUTH HILO:

### A. JOB NO 2004-840, HAAHEO WATER SYSTEM IMPROVEMENTS:

Due to delays in obtaining a desired easement through a privately owned roadway lot within the Wainaku Farms Subdivision, the Department has decided to change the design scope of work to realign the waterline route such that it will be installed within existing County right-of-way and an existing easement along Kulana Kea Drive. This will require additional field surveying and construction stakeout services from the consultant, Inaba Engineering, Inc.

Based on a hydraulic report submitted by mechanical engineering subconsultant, MCE International, Inc., the Department has decided to also incorporate into the design scope of work, the replacement of the existing booster pumps at the “new” Haaheo Booster Pump Station No. 1, which is currently not in operation. This will increase the scope of work to include mechanical and electrical engineering design services.

The consultant's fee proposal for the proposed increased scope of work is \$34,530.00. Engineering staff has reviewed the fee proposal and finds that the proposal is acceptable. The consultant's existing contract amount is \$130,800.00. If approved, the total contract price will increase from \$130,800.00 to \$165,330.00.

The Manager recommended that the Board grant the addition of \$34,530.00 to the consultant's total contract price for JOB NO. 2004-840, Haaheo Water System Improvements.

ACTION: Mr. Heck moved for approval of the Manager's recommendation; seconded by Mr. Wilkins and carried unanimously by voice vote.

**B. JOB NO. 2004-856, WAIAKEA OFFICE PLAZA RENOVATION AND REPAIR:**

Staff requests additional funds for the project. During construction, unforeseen issues were revealed. In particular, to accommodate ADA requirements, it was determined that existing ceramic tile would need to be removed. This work was approved via a contract change order within the contract contingency. However, unforeseen issues arose after the existing ceramic tile was removed on Monday, January 22, 2007. Additional work includes additional demolition work to adjust the existing concrete floor. Staff does not have an estimate from the contractor yet, but feels that an increase of \$5,000.00 in the original contract contingency of \$4,200.00 will be sufficient.

Original Contract amount: \$60,800.00  
Original Contingency amount: \$4,200.00  
Additional Contingency request: \$5,000.00

In addition, the contractor requests a 16-calendar day time extension. This request is due to delays in material shipment. Several components were missing on order.

Staff has reviewed the request and finds that the 16 calendar days are justified. This is the first time extension request.

The Manager is recommended that the board approve an increase in contingency of \$5,000.00 as well as a contract time extension of sixteen (16) calendar days from February 7, 2007, to February 23, 2007, to Site Engineering, Inc., for JOB NO. 2004-856, WAIAKEA OFFICE PLAZA RENOVATION AND REPAIR.

ACTION: Mr. Wilkins moved for approval of the Manager's recommendation; seconded by Mr. Harai and carried unanimously by voice vote.

PUNA:

**A. JOB NO. 2003-833, OLA'A NO. 3 DEEP WELL REPAIR:**

The Board considered a request from the contractor, Beylik Drilling and Pump Service, Inc., for a contract time extension of 30 calendar days. This is due to further delays in the delivery of the

spare Byron Jackson submersible motor from the supplier's Hamburg facility. The contractor's supplier has changed the scheduled shipping date to January 14, 2007, which is beyond the control of the contractor.

This second time extension was reviewed and justified by staff. If approved, the contract completion date will be extended from January 29, 2007, to February 28, 2007. The first time extension request granted 90 calendar days due to a delay with the motor manufacturer in the construction of the spare Byron Jackson submersible motor. This extended the contract completion date from October 30, 2006, to January 29, 2007.

The Manager recommended that the Board grant this extension of contract time of 30 calendar days to Beylik Drilling and Pump Service, Inc., for JOB NO. 2003-833, OLA'A NO. 3 DEEP WELL REPAIR.

ACTION: Mr. Smith moved for approval of the Manager's recommendation; seconded by Mr. Harai and carried unanimously by voice vote.

NORTH KONA:

A. **JOB NO. 2006-898, KALOKO TANK #2 HYDROELECTRIC GENERATION PROJECT:**

Proposals for this project were received and opened on January 12, 2007, at 2:00 p.m.; and following are the proposal evaluation results:

Bidder	Ranking
Aloha Machine and Welding	1
Isemoto Construction	2

This project consists of the design and installation of a 40-kW inline Hydro Turbine Generator.

Ranking Based on Committee Evaluation:

Highest Ranked Offeror: Aloha Machine and Welding. Entire funding for this project will be from a Federal Grant, USDA Rural Utilities. The contractor will have 270 calendar days to complete this project.

The Manager recommended that the Board award the contract for JOB NO. 2006-898, KALOKO TANK #2 HYDROELECTRIC GENERATION PROJECT, to the highest ranked offeror, Aloha Machine and Welding, and that either the Chairman or the Vice-Chairman be authorized to sign the contract, subject to review as to form and legality of the contract by Corporation Counsel.

MOTION: Mr. Smith moved for approval of the Manager's recommendation; seconded by Mr. Heck.

Mr. Smith stated that in reading the supplemental information, he knew that funding from this will be coming from the USDA grant. So the out-of-pocket cost to the Department is nothing. His

familiarity with USDA is that they reimburse in arrears, so the Department would have to front the money. Therefore, there would be an amount of money the Department would be carrying during the period.

The Manager stated that because this is an RFP, and because there was no certainty the Board would approve it, the Department did not want to put the amounts on, just in case there was no approval because that would be an unfair bid process. The amounts can be given to the Board after it is awarded.

Mr. Smith's concern was that if the Board does not approve a dollar amount, it may hinder the Department from making payments on progress billings to the contractor.

Ms. Garson clarified that these types of awards are not based on price. Until the award it made, the amounts are not disclosed. It is safe to say that the way the RFP was written, the lowest price received the most points; and it did not go over the amount that the grant funds were allocated for, which was \$450,000.00.

AMENDMENT TO MOTION: Mr. Smith amended his recommendation to read, "It is recommended that the Board award the contract for JOB NO. 2006-898, KALOKO TANK #2 HYDROELECTRIC GENERATION PROJECT, at a price not to exceed \$450,000.00 as provided by the USDA Rural Utility Service" and the rest remains the same; seconded by Mr. Harai.

In response to Mr. Wilkins' question if there were other factors other than price in the selection of the bidder for this RFP, Ms. Garson explained that design is also factored into who gets the award.

ACTION ON AMENDMENT: A vote was taken on the amendment to the Motion; carried unanimously by voice vote.

ACTION: A vote was taken on the Motion, as amended, to award the contract for JOB NO. 2006-898, KALOKO TANK #2 HYDROELECTRIC GENERATION PROJECT, to the highest ranked offeror, Aloha Machine and Welding, at a price not to exceed \$450,000.00 as provided by the USDA Rural Utility Service, and that either the Chairman or the Vice-Chairman be authorized to sign the contract, subject to review as to form and legality of the contract by Corporation Counsel. Motion was carried unanimously by voice vote.

**B. SEASCAPE DEVELOPMENT, LLC, RIGHT-OF-ENTRY:**

The developer, SEASCAPE DEVELOPMENT, LLC (Seascape), entered into a Water Development Agreement on October 4, 2005, and subsequently entered into a Right-of-Entry Agreement (both with the Water Board) on May 22, 2006. Due to unforeseeable involvement by a third party that is preventing representatives of Seascape from entering onto the Kalaoa Well Site and the easement accessing the Well Site, Seascape is requesting that the term of the Right-of-Entry Agreement be extended to May 1, 2007.

The Manager recommended that the Water Board agree to extend the term of the Right-of-Entry Agreement to May 1, 2007, and that either the Chairman or the Vice-Chairman be authorized to execute the extension subject to review and approval by Corporation Counsel.

MOTION: Mr. Heck moved for approval of the Manager's recommendation; seconded by Ms. Kim.

Mr. Wilkins asked about the statement, "unforeseeable involvement by a third party."

Ms. Garson explained that there is a neighboring homeowner who comes and prevents Seascape Development, LLC, from getting on the land. This Department is going ahead with giving Seascape the means to go forward in getting a court order against the person. This third party has no right to prevent Seascape from entering. Now by having this order, they can have Police assistance when entering the property.

ACTION: A vote was taken on the Motion. Motion was carried unanimously by voice vote.

C. **HILUHILU – KOHANAIKI DEVELOPER'S AGREEMENT:**

The developers, HILUHILU DEVELOPMENT, LLC (Hiluhilu), and KOHANAIKI SHORES, LLC (Kohanaiki), are requesting to amend the Water Agreement of June 15, 1999, by and between K-W KAU LLC, K-W KOHANAIKI LLC, and the WATER COMMISSION OF THE COUNTY OF HAWAII, as stated in the attached "FIRST AMMENDMENT TO WATER AGREEMENT." Hiluhilu and Kohanaiki are requesting to mainly be the successors of the original developers and to revise the allotment of water units to each development and will not require any more water units than allowed for in the original Water Agreement.

The Manager recommended that the Water Board agree to the First Amendment to Water Agreement by and between K-W KAU LLC, K-W KOHANAIKI LLC, and the WATER BOARD OF THE COUNTY OF HAWAII and that either the Chairman or the Vice-Chairman be authorized to execute the document subject to approval by Corporation Counsel.

MOTION: Mr. Smith moved for approval of the Manager's recommendation; seconded by Mr. Harai.

Mr. Smith asked if the Board could hear from Hiluhilu's representative today, Mr. Guido Giacometti.

Mr. Giacometti stated that he represents Hiluhilu, and this amendment relates to a 3-party agreement when both the Hiluhilu and Kohanaiki lands were together by one entity; and now there are separate ownerships. This is a major step in augmenting the North Kona Water System because it will help bring water down the hill to the existing public system.

The Manager stated that this amendment does not affect the Department's rights or percentage of the system. It reallocates the amount of water to each property but does not affect the Department's portion of it.

ACTION: A vote was taken on the Motion. Motion was carried unanimously by voice vote.

(Mr. Giacometti left the meeting at 10:50 a.m.)

**D. WAIAHA SOUTH AND WAIAHA NORTH DEVELOPERS' AGREEMENTS:**

The developers of the Waiaha South and Waiaha North Water Systems, WAIAHA SYSTEM, LLC, and WAIAHA SYSTEM II, LLC (Developers), intend to develop water systems along mauka-makai corridors that would allow the Department's Waiaha Well and Reservoir to be used in a more efficient manner. Currently, the existing water system cannot make use of the 2-million gallon capacity of the new well and reservoir. The existing system lacks the transmission capacity from the well site to the areas of "high consumption" or the makai systems. The Developers, upon completion of the water systems, will be granted water units for development on their respective parcels that are able to benefit directly from the installation of the water systems.

Upon execution of this Agreement, the Developers will have 120 days to finalize all parties involved and the actual number of units that will be allocated to each lot included in a subsequent agreement.

The Manager recommended that the Water Board agree to the Agreement with Waiaha System, LLC, and Waiaha System II, LLC, and that either the Chairman or the Vice-Chairman be authorized to execute the agreement subject to approval by Corporation Counsel.

Ms. Garson recommended that the Board defer this matter to its February 27, 2007, meeting because when the agreement was sent out for the Board's review, it did not include Exhibit "B."

ACTION TO DEFER: Mr. Heck moved that the Board defer this until the February 27, 2007, Water Board Meeting; seconded by Mr. Wilkins and carried unanimously by voice vote.

**MISCELLANEOUS:**

**A. DEDICATION OF WATER SYSTEMS:**

The Department has received the following documents for action by the Water Board. The water systems have been constructed in accordance with the Department's standards and are in acceptable condition for dedication.

**1. BILL OF SALE**

KINOOLE SENIOR RESIDENCES

Seller: 2020 Kinoole Limited Partnership

TMK: (3) 2-2-041:010

E.W.O.: 2007-007

Facilities Charge: \$126,500.00

Paid: 8/29/2006

Final Inspection Date: 01/05/2007

Water System Cost: \$34,430.00

**2. GRANT OF EASEMENT AND BILL OF SALE**

Subdivision Application No. 2004-0091

Grantor: Sena Properties, LLC

TMK: (3) 7-3-024:001 & 002

E.W.O.: 2006-006

Lots: 2 existing, 6 additional = 8 total

Zoning: FA-5a

Facilities Charge: \$34,200.00                      CAF: \$3,000.00

Paid: December 11, 2006

Final Inspection Date: September 29, 2006

Water System Cost: \$82,000.00

**3. GRANT OF NON-EXCLUSIVE EASEMENT**

Water Meter Easement affecting Keonepoko Elementary School

Grantor: State of Hawaii, Board of Land and Natural Resources

TMK: (3) 1-5-009:059

The Manager recommended that the Water Board accept these documents subject to the approval of the Corporation Counsel and that either the Chairman or the Vice-Chairman be authorized to sign the documents.

ACTION: Mr. Smith moved for approval of the Manager’s recommendation; seconded by Mr. Heck and carried unanimously by voice vote.

(Mr. Brooks left the meeting at 10:50 a.m.)

RECESS: The Board took a recess from 10:51 a.m. to 11:02 a.m.

**B. WATER RATE STUDY:**

Mr. Richard Cuthbert of R. W. Beck, Inc., presented the Board with a preliminary revenue requirement and rate change results for the 2007 Water Rate Study. As part of the Water Master Plan, they were looking at rates to see if they were sufficient to pay for improvements outlined in that Plan, which was completed in the summer of 2006. The Department of Water Supply has a practice of studying its rates every five years. It is one year delayed because of the time it took to get the Water Master Plan done.

Under Scenario A, which is the Water Master Plan, it shows a 1.4% increase in the last year of the five-year period (July 1, 2011). The capital spending would not have to be changed very much. Scenario B would require a 5.3% increase three years from now (July 1, 2010). The conclusion is that at least for a three-year period, rates do not need to go up.

Mr. Cuthbert asked for general direction from the Board on the following:

**Issue 1: Change in rate levels**

Option A: Proceed with the rate study

Option B: Wait on rate changes until after Strategic Plan update (later this year)

Option C: Defer rate change decision for several years (update existing rates with the power cost adjustment)

## **Issue 2: Agricultural use rate discount and level of support by other general use customers**

Option A: No change in agricultural use rate discount level at this time

Option B: Eliminate agricultural use rate discount in 2007

Option C: Phase out agricultural use rate discount over several years

(Mr. Smith left the meeting at 11:45 a.m.)

Mr. Cuthbert stated that there are a lot of economic reasons why you would not want to have agricultural water rates. However, a cost of service oriented rate would help promote more efficient water use by agricultural users. The change in agricultural water use rates would have little impact on general use rates. It is also important to recognize there is a long standing tradition for the Department to support agriculture. It is not just a cost of service issue. Agricultural rates are higher than the other islands, and they are higher than the pumping cost because they include that charge. Currently, there are approximately 660 agricultural use customers, and that has come out of approximately 5,000 farms on the island. Therefore, there are really only about one in four or five getting discounted rates. The agricultural water use is about 7.6% of total usage and makes up about 4.7% of revenues. Their preliminary estimate shows that the rates are about 20% to 25% below cost of service. The rate would need to come up about 30% to get to a cost of service level.

In response to Ms. Kim's question of how this county compares to the other counties in terms of proportion of agricultural water users (potable water), Mr. Cuthbert replied it is about the same as Kauai. Percentage-wise, this island is much smaller than Maui because there are bigger water systems. In Honolulu, it is about 2%. He added that if you were to increase agricultural rates 10%, it would lead to about half a percent increase in general use rates. Set differently, it is about a 20 to 1 ratio. Because there is so little agricultural use, it does not have a big impact on revenues.

Mr. Goya stated that the cost of the rate increase for the agricultural rates needs to be included.  
(Mr. Cuthbert agreed.)

## **Issue 3: Special water charges for new service area additions**

Option A: No change in current policy

Option B: Develop policy to determine basis for special water rates for new higher cost of service areas.

Mr. Cuthbert provided some background information on this. Some areas are more expensive to serve. It depends on density, geography, altitude, and pumping costs. The existing waterline extension policy treats current and future customers fairly and consistently. It has been a policy of the Department for 50 years in terms of how customers are served and to be fair and to protect its existing customers. New areas may want service and may be willing to pay that higher cost for it. From a rate perspective, the question is who pays for this. The existing facilities charges provide revenues for an average level of capital cost. If you come up with a number of \$10,000.00 to serve a new customer, you always want to recognize that facilities charges make up a part of that. You would not want to be double collecting. Also, the existing rates are set at a level to provide a certain amount of capital replacement, which is not really necessary. Both of these need to be considered if there are going to be special charges coming to make sure you are not double

charging customers. There is also the precedence of Kaloko-Mauka, which, about 40 years ago, provided service to a higher cost area; and they agreed to a 15-year special rate, which ended in the year 2000. It recognized the higher cost of providing service in that area and there was a surcharge to customers. For the question of who pays for the higher cost, about a year and a half ago, R. W. Beck, Inc., calculated that if the service were spread out for all areas, the rates would double or triple because there are so many low density areas that need to be serviced. Areas, right now, have the option of setting up a local Improvement District, which would allow payment of the system through property assessments. The advantage of that is all of the customers would be paying the cost of the improvements, not just the ones connecting to the water system. The third would be that the Department would fund the improvements and then collect it over a period of 15 to 20 years as part of some special rate or surcharge.

#### **Issue 4: Low income rate assistance program**

Option A: No change in current policy

Option B: Develop policy to best way to provide low income rate assistance

Low income rate assistance programs are very common with a number of utilities but are typically at larger systems (large cities). There are a number of ways they are set up. Some are 50% discounts, some are a capped amount (up to \$20.00 per month, example), and some are fixed assistance amounts per household. There are a lot of issues associated with this--qualifying customers, verifying continued qualification compliance, as well as administrative costs for setting up such a program. Where the funding comes from, some of the other jurisdictions have it coming from the utility's revenues. Other times they are provided by the city or the county under which it falls. This type of program has not been adopted in the Hawaiian islands to his knowledge. Honolulu Board of Water had a lot of interest in this during their study five years ago. At the end, it was rejected for administrative and possible legal reasons.

#### **Issue 5: Rates to support off-peak water usage**

Option A: No change in current non-time differentiated water rates

Option B: Investigate the feasibility to implement time-of-use water rates

Background on that, electrical utilities have time-of-use rates where they charge different rates at different times of the day. If the customer will use rates during off-peak hours, they are given a discount. It is Mr. Cuthbert's understanding that the Department has explored time-of-use electric monitoring on various pumps to save money. Currently, eight pumps are on discounted interruptible rates, not on time-of-use rates. There is a Rider that basically gives the electric utility some type of radio control where they can cut off a pump for a period of time, with notice given in advance. They usually do not interrupt the pumps that often--only in times where there is a power outage or overall system demand is really high. As for a utility using time-of-use metering, it is being used, but is an unusual thing and is specific to a customer having the ability to shift their usage over time. Because of water storage capacity, the question is if it really is a direct cost saving. First of all, you need to be running the pumps during peak periods. Even if this Department did have those rates and the customer could shift usage to nighttime, the way the pumps work, it is not known if it would save the Department that much money. It would be difficult to show on a cost of service basis except in exceptional cases where it would be a significant savings. Given the existing customer profiles and the fact that the Department does not

have those types of meters, it is a question if this is a really high priority at this point.

Mr. Heck asked what Mr. Cuthbert needed from the Board today.

Mr. Cuthbert replied that the last four Issues are not time sensitive; however, Issue 1 is most important. There are some administrative reasons why the Department needs to update the water rate schedules. He does not see a reason to proceed with a rate study that is only going to implement a 1% increase in water rates four years from now.

Chairman Goya polled the Board Members on where their interests lie.

**Issue 2: Agricultural use rate discount and level of support by other general use customers**

Option A: No change in agricultural use rate discount level at this time - **7 in favor**.

**Issue 3: Special water charges for new service area additions**

Option A: No change in current policy - **1 in favor**

Option B: Develop policy to determine basis for special water rates for new higher cost of service areas - **6 in favor**

**Issue 4: Low income rate assistance program**

Option A: No change in current policy - **6 in favor**

Option B: Develop policy to best way to provide low income rate assistance - **1 in favor**

**Issue 5: Rates to support off-peak water usage**

Option A: No change in current non-time differentiated water rates - **3 in favor**

Option B: Investigate the feasibility to implement time-of-use water rates - **4 in favor**

Chairman Goya then directed the Board's attention to Issue 1, which needed more discussion.

The Manager stated that he agreed with Mr. Cuthbert on deferral of the rate change for several years. It allows the Department time to catch up on things it needs to do.

Chairman Goya also agreed. There are many things such as staffing levels, the strategic plan, a possible change in management in the coming year, and how to use money more effectively. There are a lot of things to do in the next two years. His feeling was to defer the rate change at least until the strategic plan update is reviewed. He asked how the rest of the Board felt.

Ms. Helfrich commented on Option C (defer rate change decision for several years). It allows the opportunity to make a positive statement to the public that the Department and the Board are considering options but will not increase water rates at this time. With everything else going up, the reasons why the Department is deferring it now is to catch up with what was discussed. Also, once the Public Information and Education Specialist position is filled, their obligation would be to get the word out.

Ms. Kim asked how long this study has been going on, when the end date is, and how much it is costing.

Mr. Cuthbert replied that the way the schedule is right now, if a rate change were needed and the Board were to agree on it, it would be voting on a rate change in May, and the study would be

completed after implementation of the new rate. It would be finished up by the end of this year. The strategic plan update would be done later this year. He has been in many strategic plan sessions where the affordability of things has become the driver. That is more reason to hold off until the strategic plan process is completed.

Mr. Mukai asked if this is deferred for a few years, if it gets picked up from where it was left off or is it started from scratch again.

Mr. Cuthbert replied that it is pretty much started from scratch; however, not from zero. Everything would need to be updated again. They are about half-way complete right now, to basically do that assessment. If Option C were chosen, it would probably be valuable for R. W. Beck, Inc., to help the Department to come up with a schedule and come up with the information that supports what the new Water Rate handout would look like. After a year, they would still have quite a bit of the same information. After three years, they would be almost starting over.

Mr. Wilkins asked if a freeze on the rates were to happen, if the changes to power costs would still allow an increase in billable rates to match the increase in power cost.

Mr. Cuthbert replied it would include that. They have projections of what the power costs may be.

Mr. Wilkins felt that it would be good to add to any statement about water rates, the portion of the power adjustment clause.

MOTION: Mr. Mukai moved that the Board not consider a rate change at this time; seconded by Ms. Helfrich.

Mr. Wilkins asked if the Motion was meant to delay it.

Mr. Mukai stated that he did not want to put a time limit on his Motion, but rather that at this point in time, the Board not consider an increase.

Mr. Heck asked about the strategic plan and if they expect any change, as far as rates are concerned, after it is completed. The message he was getting is that the Department will not need a rate change for three to five years.

Mr. Cuthbert stated that it becomes difficult to even guess what would happen as part of the strategic plan update. He mentioned the Kauai Department of Water which is in Phase II of its 2020 Plan that was started about five years ago. Their Board wants things to go faster because they are thinking if projects can be done now, they would cost less, because costs just go up more as time goes by. It is hard to say how it is going to conclude. In a strategic plan, you might find that is direction the department wanted to go in--something using more contracting, or giving out twenty or thirty million dollars in capital improvements; then you might come back and say you need a water rate increase in order to do that. He could not say how that would go; but with the assumption right now, the Department has the current capacity of doing close to \$30 million a year with the current rates, which is significant.

In response to Mr. Heck's question of whether the strategic plan should be finished in a year, Mr. Cuthbert replied in the affirmative.

Ms. Helfrich stated that way at the back of the waterline, are the old plantation water systems. Although it is not this Department's responsibility, it is nevertheless associated with the levels of service in Hamakua and those areas. There is probably close to \$70 million in water systems improvements that have to be done statewide.

The Deputy Manager stated that the Department did take over a number of plantation systems and did improvements on them over the years. There are still a few that need improvements; however, he was not sure what the cost would be to improve the remaining ones. There is a program for replacing some of the older systems. He also gave the Board some information on the status of applications for the Public Information and Education Specialist. They are being evaluated by the Department of Human Resources. It may take a month or so to get the list of applicants. To bring that person up to speed on this Department would take a few months. He would like to see that happen first and then update the strategic plan and decide at that time if a rate change is needed. He thought Mr. Mukai's Motion to defer the rate change was in order because it is not a decision that the Board will be making that is set in concrete. Whatever happens with the strategic plan will determine whether or not a rate change is needed.

Mr. Mukai stated that the reason for his Motion was to at least let the community know that the Board is discussing a rate change and that it decided not to go with one right now. He did not put time constraints on it so if things change after the strategic plan is updated, it can always be revisited.

The Manager stated that if you combine Options B (Wait on rate changes until after Strategic Plan update later this year) and C (Defer rate change decision for several years) into one motion, that would kind of cover it.

The Board decided that Mr. Mukai's Motion has the essence of both B and C in it, which is non-action right now.

ACTION: A vote was taken on the Motion that the Board not consider a rate change at this time. Motion was carried unanimously by voice vote.

C. **MONTHLY PROGRESS REPORT:**

Remove completed projects from the list but leave finances on the bottom of the report.

D. **REVIEW OF MONTHLY FINANCIAL STATEMENTS:**

Chairman Goya noted there are still 17 vacancies the Department is working hard to fill.

E. **MANAGER'S REPORT:**

- 1) Kamehameha Investment Corporation - staff is putting together some numbers and considering some of the options. Discussions are still open.

- 2) Palani Road Transmission Waterline project - close to advertising. Still working on easements. Mr. Lawrence Beck has meetings scheduled for January 24, 2007. The project will be in the neighborhood of \$15 million. Funds will come from the general obligation bond. In response to questions of whether the Manager would need to testify before the Legislature on the related project, the Manager stated that he would be. There is a lot of misunderstanding on the project. Ms. Helfrich asked if the Manager could email the Legislative Bill Number to the Board. Ms. Kim offered that it might help if the Board submitted testimony, as a whole.
- 3) Employee of the Quarter - Mr. Inaba announced that Mr. Chris Pacheco was in Engineering's drafting branch and did a lot of the work that led up to this award. His initiative helped get the maps done for the Water Master Plan. Recently, Mr. Pacheco has moved out of that branch and into a new position as Construction Inspector. Mr. Okamoto added that a big part of the work that R. W. Beck, Inc., did has involved the Water Master Plan; and Mr. Pacheco is responsible for at least 90% of placing maps electronically on file.
- 4) AWWA ACE Conference in Toronto - please book your hotel rooms outlined in the memorandum given by the Manager. Also, make sure passports are being obtained.

F. **CHAIRMAN'S REPORT:**

Chairman Goya thanked Mr. Wilkins for attending the meeting today. Mr. Wilkins' term was extended 90 days or until a replacement is found for his district. He thanked Mr. Heck for his leadership as Chairman last year.

Chairman Goya also mentioned that the Department and the Board should really work on changing the Department's motto, "Water is Progress." It should be something more like, "Water, Our Most Precious Resource." The long-term benefit in protecting the water resource is the future generation. This can be discussed more as the Board moves forward with its strategic plan.

G. **EMERGENCY BACKUP POWER FOR CRITICAL SITES (JOB NO. 2006-900)**  
**EWO: 2007-041:**

---

Taken up earlier.

**ANNOUNCEMENTS:**

1. **Next Meeting:**

The next meeting of the Water Board will be held on February 27, 2007, 10:00 a.m., in the Hilo Operations Center Conference Room, 889 Leilani Street, Hilo, Hawai'i.

**STATEMENTS FROM THE PUBLIC** - none

**ADJOURNMENT** - Meeting was adjourned at 11:40 a.m.

---

Secretary

*The Department of Water Supply is an Equal Opportunity employer and provider.*