

BOARD OF WATER SUPPLY
COUNTY OF MAUI

REGULAR MEETING
MINUTES OF JUNE 28, 2012

The regular meeting of the Maui County Board of Water Supply was held at the Department of Liquor Control office conference room, 2145 Kaohu Street, Room 108, Wailuku, Maui, on Thursday, June 28, 2012.

CALL TO ORDER

The meeting was called to order by Chair Kevin Boteilho at 9:00 a.m.

ATTENDANCE

Members present: Kevin Boteilho, Chair
John Hoxie, Jr., Vice Chair
Patricia Eason
Donald Gerbig
Robert Joslin
James Rust
Michael Suzuki

Excused: William Kamai

Staff present: Dave Taylor, Director
Paul Meyer, Deputy Director
James Giroux, Deputy Corporation Counsel
Gaye Hayashida, Commission Support Clerk

Others: Mary Blaine Johnston, Deputy Corporation Counsel
Jack R. Naiditch, attorney representing David and Patricia
Chevalier
Warren Watanabe, Executive Director, Maui County Farm
Bureau
Tonya McDade, court reporter

ANNOUNCEMENTS

None.

APPROVAL OF THE MINUTES

Chair Boteilho asked if there were any changes regarding the minutes of May 24, 2012.

Motion: Member Rust moved to approve the minutes.

Second: Member Eason

Discussion: None.

Vote: Unanimous. Motion passed. The minutes of May 24, 2012 were approved.

TESTIMONY FROM THE PUBLIC

Warren Watanabe, Executive Director of the Maui County Farm Bureau, read from his written testimony regarding the 2013 Water Rates. (Note: the FY2013 Water Rates took effect on July 1, 2012.) A copy his written testimony has been made a part of these minutes. Refer to pages 11 and 12.

Member Rust asked Mr. Watanabe to help them understand what this "30% to 100% farm gate value" is.

Mr. Watanabe explained that is the price that a farmer gets when he sells to a wholesaler. It is a tough business because the farmer is not getting his investment back on his crop.

Member Rust asked if our agricultural rates are comparable to the other 3 counties.

Mr. Watanabe said it is fair, comparable and added that the Farm Bureau appreciates Maui County's support. This is not the case for the Big Island's Department of Water Supply, whose mission is only to deliver potable water for residents; having no interest in supplying water for agriculture. Oahu does have ag water rates but their rates went up also and Kauai is in a similar situation. This is why it is important that the Upcountry Dual Line project be completed. Right now, they are paying double of what the farmers on state irrigation systems are paying. Maui is the only island that does not have a state irrigation system.

Member Rust stated that according to Mr. Watanabe's testimony the development of property throughout Maui is putting a strain on water for agriculture so he asked if the Farm Bureau is giving testimony on this at the Planning Commission and the County Council.

Mr. Watanabe replied yes, and also with the state water commission because the in-stream flow standards have a big impact on Maui County. He continued by saying agriculture is not asking for all the water, just their fair share of it. Upcountry water used to be allocated 50-50. Now it is 2/3 for domestic use and 1/3 for agriculture. This is a concern because it shows a decline in agriculture.

Member Rust stated that in his opinion agriculture is as important as other developments around the island. Everyone is preaching sustainability, well, here it is.

This is where we can do something to sustain ourselves. The Dual Line system needs to be completed as soon as possible so we can feed ourselves and not depend on the ships to bring in our food. We have to back up our farmers because that's who feed us.

Member Gerbig asked what is the ag rate that Mr. Watanabe would like propose for Maui County.

Mr. Watanabe replied that the ag rates went up 5 cents to \$1.10 which is double of the rate for the state system. He pointed out that many of the farmers have multiple meters so it compounds the expense. Maybe this is something that the board could consider and make some adjustments to the meter charge for agriculture.

Chair Boteilho asked at what stage is the Dual Line water system in.

Mr. Watanabe laughed and said "Good question." Right now they are doing only the main transmission line. The governor just released funding from 2 sessions ago. He can give the board more information on that later.

Member Hoxie noted that getting new sources is the other half of the equation, not just the rates.

Mr. Watanabe added that another option they are looking at is storm water reuse. By putting up basins on ranch lands this will help the ranchers through droughts.

Member Hoxie asked how does Maui's ag water rates compare to the other islands.

Mr. Watanabe said it is favorable. But the issue is more that the other island farmers have options. When the state irrigation system runs low they go to the county system. Here on Maui they don't have that option. The plantations used to maintain what are now the state systems which are in disrepair and the state is now trying to allocate enough funds to make these systems adequate.

Member Rust asked if the wastewater treatment plant is moved further inland could that be a source for the plantations.

Deputy Director Meyer stated that it could be if the delivery system was there but it could be very expensive to decommission the existing plant to move it elsewhere.

Member Hoxie noted that sugarcane is very sensitive to nitrogen and the treated water would have that in them. Too much nitrogen would affect yields. So it is a very tricky situation.

Chair Boteilho stated that there has been talk about setting water rates based on the cost of delivery. As everyone knows Upcountry delivery is very expensive as compared to Central. What is the Farm Bureau's view on this?

Mr. Watanabe replied that the cost of delivery is very expensive and he understands that the Department has to cover its costs. Part of it is trying to find affordable ways of delivery specifically for agriculture and this should be a policy decision like the federal government subsidies. Agriculture will not be able to survive without some kind of subsidy. If you want agriculture you have to be willing to sacrifice to provide this support. Our county farmers are paying the domestic rate until they reach the 15,001 gallons per month threshold.

There being no further questions for Mr. Watanabe and since no other testifiers came forward Chair Boteilho closed Public Testimony.

APPEALS

Appeal No. 11-01, an appeal by David and Patricia Chevalier, Proposed Findings of Fact, Conclusions of Law, and Decision and Order

The Board heard from the appellants' attorney and the Department's attorney regarding the board's Proposed Findings of Fact, Conclusions of Law, and Decision and Order.

UNFINISHED BUSINESS

None.

OTHER BUSINESS

Discussion regarding the 2013 Water Rates

The Department distributed handouts regarding the new rate structure. A copy of the handout has been made a part of these minutes. Refer to pages 13 and 14.

Deputy Director Meyer explained that these are the rates they took to the Council. The Mayor has signed it and the rates will go into effective over the weekend (July 1st). These rates reflect about an average of 4% increase.

The first 15,000 gallons of the ag rates is the same consumption levels as the General rates and Single Family rates. He noted that most farmers live on their farm and the intention is to reflect their home usage at the same rates as the Single Family up to 15,000 gallons per month, and then the excess of the 15,000 gallons will be at the agricultural rate of \$1.10.

The bulk of the agriculture is in the Upcountry area and the cost of service to Upcountry is over \$3.00 per thousand due to the cost of treating the water by filtration, chlorination, disinfection and the cost of pumping. They do deliver untreated gravity fed surface water to the Olinda Apana Awalau Line and also to Kaupo. They only charge at the Ag rate of \$1.05 (now \$1.10).

Kapalua Water Company has a dual line system where every house has 2 meters; one for untreated surface water for irrigation and another meter for potable water for domestic use. This is an ideal but very expensive system to put in.

Member Rust pointed out that Wailuku Country Estate has a dual line system. He also noted that they are using non-potable water to water their lawns and it is not used for agriculture. If they are not farming shouldn't they be charged the higher rate even though it is non-potable water?

Deputy Director Meyer explained that it is a private system and the property owners buy the water from Wailuku Water Company.

At the recommendation of their consultant, SAIC/Brown & Caldwell, the department has increased the fixed monthly charge gradually over a period of 3 to 4 years to cover the fixed expenses, then gradually adjust the consumption rate to reflect the variable costs of treating water. This way the expenses and revenues will move more closely together and they will be able to budget more efficiently.

Another recommendation by the consultant that the department has implemented is to add a 4th tier of \$5.25/kgal to the Single Family category aimed at those who use more than 35,000 gallons per month. This is just for the 7% of the Single Family Rate customers who use more than 20% of the water. They are hopeful that this conservation measure will encourage wiser use of water.

Chair Boteilho asked if these "7%" were the large estate type of customers?

The Deputy stated that interestingly the concentration was more geographical than size. It was more about higher value homes in the resort area of the drier parts of the island, in particular Wailea and Maui Meadows, where there are higher amounts of landscaping. Not necessarily higher occupancy but rather homes with larger landscaping areas.

He also stated that we have the lowest water rates in the state due to the amount of surface water that we are able to capture, treat and deliver. Whereas on Oahu most of the water comes from wells which need to be filtered with GAC filters and treated for DBCP and other chemicals.

Member Rust asked if the department knows how much water is lost at the Waikamoi Flume.

Deputy Director Meyer stated that he does not know since there is no way to gauge how much is going in from the Waikamoi Stream, Haipuaena Stream and all the other intakes along the way. They only know how much comes out and goes into the reservoirs. Though under low flow conditions the loss may be significant, about 20%.

Member Hoxie asked why is there no 4th tier in the General Rates?

The Deputy replied that the General Rates are applied to commercial users and most of them have larger meters. They have found that commercial users are paying attention to their costs by putting in efficient irrigation systems, using landscaping that requires less water, and installing low flow fixtures.

There is no exemption for other county and state departments. They are all in the General Rates category.

Deputy Director Meyer stated that the Honolulu Board of Water Supply just notified them that they have decided to not go with a monthly billing system in the foreseeable future and because Maui has a common billing system with them, Maui will stay with the bi-monthly billing.

Deputy Director Meyer announced that they will soon be issuing a rate study report. The report will include a tremendous amount of data and analysis and also some of the public policy justification for the rates. Copies of this report will be given to the board.

Receipt of Board Members request for agenda items to be placed on future agendas

No requests were made by the board members at this time.

COMMUNICATIONS

COM 12-03A - H, Invitations from the Center for Island Climate Adaptation and Policy (ICAP) to attend "Water Resources and Climate Change Adaptation in Hawai'i: Adaptive Tools in the Current Law and Policy Framework" workshop on July 12, 2012.

Deputy Corporation Counsel James Giroux explained that the county's view is that it is important for board members to attend workshops and seminars. The state has been lobbied to consider allowing this to be the exception to the Sunshine Law, and so the state legislature just passed that bill. The only "quinkie dink" is that the law does not take effect until July 1st. To be on the safe side, if less than 5 goes he suggests that for the time being this board nominate members to an investigative committee.

Mr. Giroux said that if the board wanted to do a show of hands of who wanted to go and then if it's less than a quorum they could just appoint those members to go and when they come back they will give a report. Since there will be no action taken on it the last part of the investigative process would not be needed.

At this time Member Gerbig, Chair Boteilho and Member Eason volunteered to attend this workshop.

Mr. Giroux suggested that the board appoint those that have shown interest and the scope is to go to this workshop and gather information that might be relative to the board.

Motion: Member Hoxie moved to appoint members Gerbig and Eason and Chair Boteilho to attend the ICAP workshop on July 12th as the investigative committee and report back to the board.

Second: Member Gerbig

Discussion: None.

Vote: Unanimous. Motion carried. The members of the investigative committee will attend the workshop and report back to the board.

DIRECTOR'S REPORT

The Department of Water Supply's Presentation of the Water System Management and Optimization Update as presented to the Council's Water Resources Committee on March 13, 2012

The department presented a video of the County Council's March 13, 2012 Water Resources Committee meeting where Director Taylor gave a power point presentation. When the video was over, Chair Boteilho noted that it was an excellent presentation. At this time the board members were given the opportunity to ask questions of the director.

Member Gerbig asked how the Show Me the Water ordinance and Reliable Capacity relate.

Director Taylor replied that he's not sure how they relate. The Show Me Water ordinance came out of a councilmember's action in the past. Some people have said it is about saving the aquifer; some have said it is about making sure the infrastructure is there and who pays for it. The Show Me the Water ordinance does a little of all these things.

He suggested to the council to back up and think about what we are trying to do. If we are trying to save the aquifer, well then the State Water Commission has told us how much water we can take out of each aquifer and stream. As long as you don't exceed that then that's the methodology to protect our aquifers.

For subdivisions it's really the issuance of the water meter that is important not the subdivision process. He thinks what the Show Me the Water bill is trying to do is if there is no water for the subdivision then this bill will save the developer from going through

the subdivision process. Or if there is a little water then we could then save what there is for affordable housing. This ordinance does a number of those things.

So we should ask what are we trying to do and then look at that ordinance and ask ourselves, is this what it is doing? If not, then modify the ordinance to what we are trying to do.

Any way you look at it, the Show Me the Water bill has something to do with Reliable Capacity. If there were lots and lots of water in the pipes and lots of tanks that bill would certainly never happened. There is no doubt that they are related. The question is how much extra do we need before we are comfortable in changing that bill.

Director Taylor informed the board that on July 3, 2012 he will give an update to the Council's Water Resources Committee and the board members are all welcome to come.

Member Hoxie stated that 33% of the costs were electrical needs and wanted to know if this is something that the department is looking at to move forward on or let the council know.

Director Taylor answered that they let the council know everything and try to keep them up to date. He added that the department has worked with other county departments to put out to bid a large project for the installation of photovoltaic (pv) panels on many county facilities including a number of water department facilities. But the amount of electricity saved will not be large enough to cover the costs of the fluctuating oil prices.

Member Rust suggested that the county could put up a "solar farm" on county property and trade off with MECO.

Director Taylor said the county could do that but he pointed out that the county has very little land as compared to the state so they would have to buy land and become a developer of power. This is something completely different than the county installing pv panels or windmills, and powering it on the county's side of the meter, thereby running the meter backwards. You're talking about the county going into business as an independent power generator. There's a whole different cost structure for this.

He believes that this is not impossible and it may be done one day, but first things first. We need to get all our "ducks in a row" with our core business before we jump into this new business. It all sounds simple until you look at the economics of it which is driven by federal and/or state tax breaks. These tax breaks would not apply to the county since the county does not pay taxes.

The Director applauded Doug McLeod for putting together a countywide pv project in order to get better prices and still have us in control of our facilities.

Chair Boteilho asked if the county looked at getting power from another source like HC&S.

Director Taylor stated that Carl Freedman is working on a project about what opportunities are available to the DWS to do things like that.

Member Suzuki asked about getting water from de-salination.

The Director replied that is one of the many things they have talked about that is a real option and it is being ranked against other options. Right now it is very, very unlikely that it will be a really good solution for Maui County in the foreseeable future.

He explained that it costs about \$4/kgal to deliver water to our customers; whereas de-salination will cost upwards of \$8 to \$10/kgal. The electricity for this type of project is really expensive and then you end up with really salty water that you can't get rid of and then it becomes a very difficult disposal problem.

He added that we have water that is available to us in East Maui at a much, much lower long-term cost and at a higher reliability than de-sal. It is difficult for him as the director to recommend going to de-sal before we tap into the East Maui water.

Member Rust asked why aren't we tapping into East Maui now?

Director Taylor explained that during former Director David Craddick's time that was the plan but then the county's EIS was challenged. In the end, county settled the lawsuit in a consent decree that required the county to start the EIS over again and now they are doing just that. The county has a long-term plan about what needs to be done in order to get that water. And this is another plan that is being compared to all the other de-bottlenecking plans.

It is really important to recognize the whole process of what it takes to get shovels in the ground. One of the hurdles is the council getting funding and the other is the subjective approvals. The key questions in both of these hurdles are: 1. Why are we doing this and not something else, and 2. How does this fit in to what else you're doing?

His message is that they are taking a couple of steps back to build a better foundation. And they are not just analyzing one project but they are analyzing the next decade of projects. This will be the foundation for all projects over next decade. This is a fundamental change in departmental management.

DIVISION REPORTS

April 2012 Division Reports

There was no discussion on this matter.

ADJOURNMENT

There being no further business the meeting was adjourned at 11:54 a.m.

Prepared by:

Gaye Hayashida
Commission Support Clerk

Approved by:

Paul Meyer
Deputy Director

WRITTEN TESTIMONY



Maui County Farm Bureau

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PUBLIC TESTIMONY

June 28, 2012

Testimony Re: 2013 Water Rates

Chair Boteilho and Members of the Board,

The Maui County Farm Bureau appreciates the support of the County by providing water rates for agriculture. Agriculture cannot exist without water. We opposed the water rate increase for FY 2013 for the following reasons.

We are in a drought and the forecast is for continued dry weather. The farmers' current practice is to reduce plantings during the dry months as the financial risk of not getting optimum yield is too great. This is a self imposed restriction as they know that the present water system is not reliable enough to justify this risk. Ranchers destock their herds and it takes years to return to normal production levels. Reliable water systems are required if we want viable agriculture.

Our cost of production has increased tremendously while farm gate value has not kept pace. For example, the cost of fertilizer per ton in the 1980's was approximately \$350, it is now approximately \$1,100 per ton. This is a 300% increase while depending on the crop, farm gate value has increased only between 30% to a 100%. It is important to note that these are farm gate values, not the price you see in the market place.

The current charge to farmers on state irrigation systems is \$0.50 per 1,000 gallons. Our Maui farmers must compete with this significant differential. We also have transportation costs to get our products to the major Oahu market. The Governor recently released funds to continue the Upcountry irrigation waterline

WRITTEN TESTIMONY (continued)



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project. This project must be completed so that our farmers will have rates comparable to other areas across the state.

We do support water conservation and preventing overuse. Our farmers and ranchers do not waste water. Over irrigating reduces crop yield and causes diseases resulting in increased production costs. The net return is not justifiable. We utilize technology such as drip irrigation or other methodology to maximize water use.

We understand that agriculture is not paying the full cost of delivery and appreciate the County's support. However, our policies state the following; Proper allocation of available water resources is a priority matter. Agriculture has historically been a major developer and user of water in Hawaii, but the rapid growth of domestic and industrial uses has diminished the water available to agriculture. The state's agricultural producers must be provided adequate water resources, and to this end, the following are required:

1. Aggressive policies and projects that result in new sources of water for agriculture. The state and counties should assume an active role in the development of new water sources and storage facilities.
2. Where combined domestic and agricultural water systems exist efforts should be made to establish affordable agriculture water rates.
3. County Boards of Water Supply should assume an active role in developing sources of irrigation water for agricultural lands.

We request the strong support of the board to oppose future water rate increases for agriculture. Thank you for this opportunity to testify.

2013 Water Rates
 (Handout)

	NEW Single Family Rate Structure (Effective July 01, 2012) 4.5%	Existing Rates (July 01, 2011 - June 30, 2012)
System rate increase		
Service charge, 5/8" meter	\$11.25 per month (currently \$9.25) About 66% of cost of service	\$9.25 per month
Single Family Rates	<p>Single Family Rates \$/kgal</p> 0 - 5,000 gallons/month \$1.75 5,001 - 15,000 gallons/month \$3.20 15,001 - 35,000 gallons/month \$4.80 > or = 35,001 gallons/month \$5.25	
General Rates	<p>General Rates \$/kgal</p> 0 - 5,000 gallons/month \$1.75 5,001 - 15,000 gallons/month \$3.20 > or = 15,001 gallons/month \$4.80	<p>General Rates \$/kgal</p> 0 - 5,000 gallons/month \$1.75 5,001 - 15,000 gallons/month \$3.20 > or = 15,001 gallons/month \$4.60
General use revenue increase	3.59%	
Agriculture Rates	<p>Agriculture Rates \$/kgal</p> 0 - 5,000 gallons/month \$1.75 5,001 - 15,000 gallons/month \$3.20 > or = 15,001 gallons/month \$1.10	<p>Agriculture Rates \$/kgal</p> 0 - 5,000 gallons/month \$1.75 5,001 - 15,000 gallons/month \$3.20 > or = 15,001 gallons/month \$1.05
Agricultural use structure	No change in water use rate structure Revenues up 4.8% over existing rates	
Non Potable use	<p>Non-Potable Rate \$/kgal</p> All Usage \$1.10 <p>No change in water use rate structure Revenues up 5.4% over existing rates</p>	<p>Non-Potable Rate \$/kgal</p> All Usage \$1.05

The Residential Rate Structure and Achieving Conservation Goals

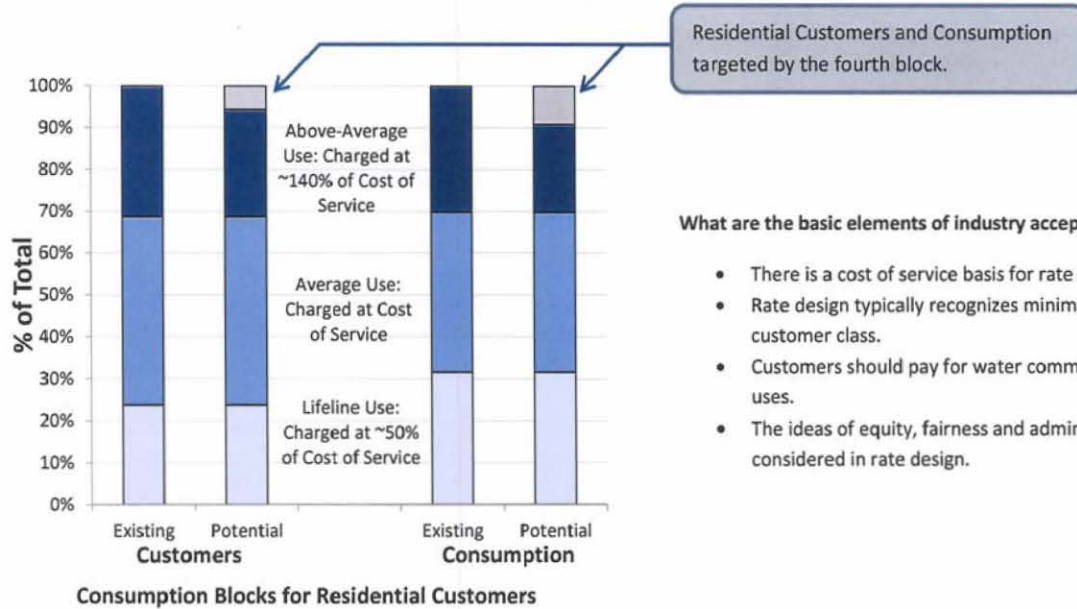
Why do we want a separate residential rate structure?

- The top 6% of residential customers use 23% of the water.
- There are 1,200 residential customers (4%) out of approximately 30,000 using more than 3 times the average monthly consumption of 13,000 gallons per month.
- Creating a separate Residential customer class will enable a 4th rate block to be added thereby sending a stronger conservation message in this last block.

How will commercial customers be impacted by the rate structure?

Commercial customers in the General Service customer class are not being directly targeted for conservation.

- 89% of usage in this class is consumed in the current 3rd block.
- Customers in this class are essentially paying a uniform rate.
- The third block rate is approximately 140% of the cost of service.



What are the basic elements of industry accepted rate design?

- There is a cost of service basis for rate design.
- Rate design typically recognizes minimum and average uses by customer class.
- Customers should pay for water commensurate with their uses.
- The ideas of equity, fairness and administrative ease are considered in rate design.