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BOARD OF WATER SUPPLY APPROVES REVISED RATE SCHEDULE
*Uncontrollable Cost Escalations & Replacing Aging Infrastructure Key Drivers
of BWS Budget/Rate Change*

After 11 years of deferring scheduled rate increases, the Honolulu Board of Water Supply (BWS) approved a revised rate schedule today.

In order to minimize impact on customers, BWS delayed the implementation of a previously approved 13% increase from July 1, 2006 to October 1, 2006. The increase does not take effect until after the end of summer, when customers typically use more water. The average BWS single-family customer will see an additional \$3.23 in their water bill every month.

Also, BWS is distributing the needed rate increase over a five-year schedule to further mitigate impact on its ratepayers. After the initial 13% in 2006, water rates will rise as follows: 12% on July 1, 2007; 10% on July 1, 2008; 8% on July 1, 2009; and 5% on July 1, 2010. After that, BWS will seek to implement modest, “cost-of-living” increases based on the Honolulu Consumer Price Index (CPI).

“The BWS has worked hard over the years to control costs and has been able to defer scheduled rate increases since 1995,” said Clifford P. Lum, BWS Manager and Chief Engineer. “However, we can no longer afford to postpone rate increases. We need the additional revenue to keep up with uncontrollable cost escalations and most importantly, to properly and proactively address the needs of our aging infrastructure.”

Operating costs have continued to escalate over the past eleven years while revenues have remained flat. BWS faces continued growth in uncontrollable fixed costs, such as:

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- **Construction:** For FY 2006, BWS's anticipated costs for emergency road repaving total \$2.8 million – nearly nine times the repaving dollars spent in FY 1995.
- **Electrical power:** The Board's electrical expenses increased 34% from FY 1995 to FY 2005. Its FY 2005 electric bill totaled more than \$13.6 million.
- **Fuel:** From FY 1996 to FY 2005, BWS's fuel expenses jumped up by 94%; with more than \$461,000 spent on fuel in FY 2005.
- **Personnel:** In FY 2004, BWS personnel costs totaled \$26.2 million for 584 employees; in comparison the projection for FY 2006 is \$31 million for 583 employees. That's an 18% increase in just two years. These personnel cost increases consist of collective bargaining increases that are negotiated or arbitrated statewide. However, BWS faces additional personnel cost escalations including increases in our contribution to the retirement fund, medical insurance, and other employee benefits.

The Board also approved the fiscal year 2006-2007 operating and capital program budgets totaling \$172.5 million. The key component of the budget is the \$49.9 million allocated to the capital program, for the continued renewal and replacement of its pipelines, pumps, and other water system facilities.

In dealing with its aging infrastructure, BWS is faced with dramatic increases in construction costs. Nationwide, the cost of steel has risen 9% and Ductile Iron Pipe is up an average of 18% from one year ago – and these increases are even more dramatic here in Hawaii. “The Katrina Effect” continues to significantly impact the Polyvinylchloride (PVC) pipe market supply, resulting in a 29% increase in just the past year.

According to the U.S. Department of Labor, consumer prices in Honolulu rose 3.8% in 2005. These increases have averaged 1.7% annually since 1995. BWS rates have not kept pace with inflation and are well below the national average.

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Despite these challenges, BWS must continue to carefully manage and plan for renewal and replacement of its aging infrastructure to minimize water loss and service disruptions. The Board’s system includes nearly 2,000 miles of pipeline, the bulk of which are between 30 to 50 years old coinciding with the post-war expansion and baby boom. This is not a unique problem. Countless utilities across the country and here in Hawaii are facing the challenges of needing to reinvest in aging infrastructure.

“Although we recognize rate increases impact our customers, we believe we are acting in the best interests of our ratepayers,” said Randall Chung, BWS Board Chairman. “This revised rate schedule will ensure that the Board of Water Supply’s financial foundation is strong, so that it is in a position to continue providing quality service over the long term.”

About BWS

The Honolulu Board of Water Supply is a semi-autonomous city agency whose mission is “Water for Life – Ka Wai Ola.” Three main strategic objectives emanate from this mission-- resource, economic and organizational sustainability. Resource Sustainability ensures our natural groundwater supplies are protected and managed efficiently. Economic Sustainability requires diversifying financial resources to support system operating and capital needs, while keeping water rates affordable. Organizational Sustainability calls for a sound, well structured, efficient organization with the tools and skills necessary to provide exceptional value to our customers, our community, and our watersheds. More information about BWS can be found on the BWS site at www.boardofwatersupply.com.

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