

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA



EDWIN H. SNIFFEN
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KA LUNA HO'OKELE

Deputy Directors
Nā Hope Luna Ho'okele
DREANALEE K. KALILI
TAMMY L. LEE
CURT T. OTAGURO
ROBIN K. SHISHIDO

STATE OF HAWAII | KA MOKU'ĀINA 'O HAWAI'I
DEPARTMENT OF TRANSPORTATION | KA 'OIHANA ALAKAU
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

February 6, 2025
3:00 P.M.
State Capitol, Room 224

S.B. 21
RELATING TO WATER CARRIERS

Senate Committee on Transportation and Culture and the Arts

The Department of Transportation (DOT) **supports** this measure that establishes an automatic adjustment mechanism for water carriers based on an inflationary cost index.

DOT was a member of the Water Carriers Working Group established by the legislature in 2020 and finds that S.B. 21 is also consistent with the recommendation of the working group.

This new mechanism allows for water carrier rates to keep pace with inflation without requiring a formal rate case to be considered and approved by the Public Utility Commission. Formal rate cases are time consuming, and consequently rates are typically not adjusted annually and the lags between rate cases necessitate large increases when the rate cases are considered. This has a significant impact and burden on businesses that rely on water carriers.

Thank you for the opportunity to provide testimony.

JOSH GREEN, M.D.
Governor

SYLVIA LUKE
Lt. Governor



SHARON HURD
Chairperson, Board of Agriculture

DEAN M. MATSUKAWA
Deputy to the Chairperson

State of Hawai'i
DEPARTMENT OF AGRICULTURE
KA 'OIHANA MAHI'AI
1428 South King Street
Honolulu, Hawai'i 96814-2512
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TESTIMONY OF SHARON HURD
CHAIRPERSON, BOARD OF AGRICULTURE

**BEFORE THE SENATE COMMITTEE ON TRANSPORTATION AND CULTURE AND
THE ARTS**

THURSDAY, FEBRUARY 6, 2025
3:00 PM
CONFERENCE ROOM 224

SENATE BILL NO. 21
RELATING TO WATER CARRIERS

Chair Lee, Vice Chair Inouye and Members of the Committee:

Thank you for the opportunity to testify on Senate Bill 21. This bill aims to set up a Water Carrier Inflation Cost Index Mechanism and grant the Public Utilities Commission the authority to exempt any water carrier from specific requirement under the Hawai'i Water Carrier Act. The Department of Agriculture (Department) appreciates the opportunity to provide the following comments.

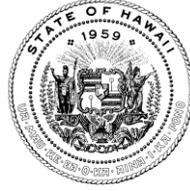
The Department acknowledges that implementing this proposed mechanism may require the establishment of a new water carrier price index for Hawai'i, in addition to the existing Freight Transportation Services Index available through FRED at the Federal Reserve Bank of St. Louis and at the U.S. Bureau of Transportation Statistics.

As with most price indices, the Department recognizes the tendency for any price index to rise over time. When this happens, general economic models often indicate a reduction in consumer surplus, which can have negative impacts on all consumers, including farmers and ranchers across the state.

While this cost index mechanism may trigger an automatic increase in shipping rates, the freight shipper may not necessarily implement the rate adjustment. That decision depends on the company's revenue and cost structure. Conventional, non-competitive pricing models suggest that most rational firms seek to maximize profits by setting rates where marginal cost equals marginal revenue (MC=MR). However, this may not always result in the highest legally allowable rate or peak loss in consumer surplus.

Thank you for the opportunity to testify on this measure.





STATE OF HAWAII | KA MOKU'ĀINA 'O HAWAI'I
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
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JOSH GREEN, M.D.
GOVERNOR | KE KIA'ĀINA

SYLVIA LUKE
LIEUTENANT GOVERNOR | KA HOPE KIA'ĀINA

NADINE Y. ANDO
DIRECTOR | KA LUNA HO'OKELE

DEAN I HAZAMA
DEPUTY DIRECTOR | KA HOPE LUNA HO'OKELE

Testimony of the Department of Commerce and Consumer Affairs

**Before the
Senate Committee on Transportation and Culture and the Arts
Thursday, February 6, 2025
3:00 p.m.
Conference Room 224**

**On the following measure:
S.B. 21, RELATING TO WATER CARRIERS**

Chair Lee and Members of the Committee:

My name is Michael Angelo, and I am the Executive Director of the Department of Commerce and Consumer Affairs (Department) Division of Consumer Advocacy. The Department offers comments on this bill.

The purpose of this bill is to: (1) establish a Water Carrier Inflationary Cost Index Mechanism; (2) authorize the Public Utilities Commission (Commission) to grant exemptions to any water carrier from any requirement under the Hawaii Water Carrier Act; and (3) define "automatic adjustment mechanism".

Specifically, this measure requires the Commission to establish a water carrier inflationary cost index automatic adjustment mechanism (Automatic Adjustment Mechanism) on or before January 1, 2026. This Automatic Adjustment Mechanism is to be tied to the annual percentage change in the Gross Domestic Product Price Index as reported by the Bureau of Economic Analysis of the United States Department of Commerce. In addition, this mechanism shall be required to be applied on an annual

basis, regardless of whether the factor is a positive or negative percentage change, and be capped at plus or minus 5% a year.

Under this measure, any request to establish the proposed Automatic Adjustment Mechanism made by a water carrier would be through a 45-day tariff transmittal. Additionally, it would expressly not constitute a rate increase application or request for a general rate increase. The provision would expand the Commission's discretion and waiver authority or its ability to exempt water carriers of all laws and any applicable decisions, orders, rules, or other laws upon a determination that such laws, decisions, orders, and rules should not apply to water carriers or that application of them would be unjust, unreasonable, or not in the public interest.

The Department appreciates the intent of this bill to support the water carrier industry. Water carriers play a crucial role in sustaining each island's economy and community. The Department recognizes that any disruptions in intrastate water carrier services present significant hardships to customers, especially for neighbor island communities.

However, the Department is concerned that adoption of such a mechanism may result in unnecessarily burdening customers with increasing and unchecked rates. The review of whether the establishment of an automatic rate adjustment mechanism for Young Brothers, LLC (YB) is in the public interest will be considered and evaluated in a Commission proceeding that has already been opened. In short, last year, YB submitted an application with the Commission requesting approval of essentially the same type of mechanism, which became a matter of Docket No. 2024-0092. By order issued on December 12, 2024, the Commission dismissed YB's application without prejudice, and stated that YB may include a request for an adjustment surcharge or rate adjustment mechanism as part of its next test year rate application. The Department notes that YB's current 2025 test year rate increase application includes a request for an automatic rate adjustment mechanism. The Department believes that such a mechanism should be thoroughly evaluated in the current Commission proceeding rather than be required through law. Through the rigors of the regulatory processes, the reasonableness and the need for such a mechanism can be carefully examined. For example, it is not clear that

the Gross Domestic Product Price Index (GDPPI) accurately reflects the water carrier's actual costs of operations, especially in light of the fact that the water carrier's fuel expenses are already passed through to customers as a surcharge. In addition, GDPPI indices measure overall inflation for all sectors producing goods and services in all regions in the United States. However, inflation impacts sectors and regions differently, and the GDPPI indices are unlikely to track the impact of inflation on the operations and maintenance expenses of the water carrier, whose regulated business operates only in Hawaii. Overall, the Department believes that such a mechanism warrants careful examination through the already opened Commission proceeding since the impacts of such a mechanism will likely affect consumers with higher rates, most likely on an annual basis, throughout the State.

For context, the Commission already attempted to implement certain regulatory programs that are similar to the mechanism proposed in this bill with the intention of providing the regulated water carrier with flexibility that would allow the water carrier to gradually re-balance its rates so that the rates for less than container load service would better match the cost of providing that service. This flexibility was granted in a zone of reasonableness program, as well as an annual freight rate adjustment program. After the water carrier used both programs to raise rates for all customers as well as file general rate increases to further increase rates, the Commission terminated both regulatory flexibility programs because they were not being used for their intended purposes.

Finally, the Department notes that the bill requires that the Commission establish the Automatic Adjustment Mechanism to address, among other things, inflation and regulatory lag. Inflation and regulatory lag have been prevalent throughout the history of public utilities. In exchange for a monopoly, regulated entities are generally required to undergo a process to scrutinize and approve any requests to increase their rates. In practical terms, this regulatory lag can serve to ensure that a properly and efficiently managed regulated entity is appropriately and prudently managing its costs in between rate cases to the benefit of customers.

On the other hand, an automatic adjustment mechanism, such as the one proposed in the bill, could serve to disincentivize a regulated entity from appropriately

managing its costs in between its rate cases. Along those lines, the water carrier's business model is an open issue before the Commission. By order issued on December 31, 2024, the Commission has already noted an unsustainable pattern by which the water carrier has: (1) sought urgent assistance from the Commission, (2) received said urgent relief, and (3) sought even more assistance, and sometimes before the previous request for assistance has been resolved. Based off this unsustainable pattern, the Commission has encouraged the water carrier to incorporate specific improvements to its business model and suggested cost control measures in its actively pending rate case. The Department offers that it is premature to require any automatic rate adjustment through this bill without first gaining a better understanding of, and potentially improving upon, the water carrier's business model as well as its ability to enact and emplace cost control measures.

Thank you for the opportunity to testify on this bill.

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
PUBLIC UTILITIES COMMISSION
465 S. KING STREET, #103
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Testimony of the Public Utilities Commission

To the
Senate Committee on
Transportation & Culture and the Arts

February 6, 2025
3:00 p.m.

Chair Lee, Vice Chair Inouye, and Members of the Committee:

Measure: S.B. No. 21
Title: RELATING TO WATER CARRIERS.

Position:

The Public Utilities Commission ("Commission") offers the following comments for consideration.

Comments:

The Commission appreciates the intent of this measure to address inflation and regulatory lags water carriers may experience, at a minimum, by establishing a Water Carrier Inflationary Cost Index ("WICI") automatic adjustment mechanism.¹ The Commission offers the following comments on this measure.

During the 2020 Legislative Session, Senate Resolution 125, SD1 was passed, requesting that the Commission convene a working group to discuss and recommend both mid-term and long-term solutions to balance the need for interisland water carrier service in the State with the need for water carriers to maintain a level of financial sustainability. Following the working group stakeholder meetings, which included a number of members from the Legislature, the Commission submitted the Hawaii Water Carriers Working Group ("HWCWG") final report to the Legislature on December 27, 2021.²

¹ The Commission notes that discussions of an automatic adjustment mechanism for water carriers in the State was presented in the final report of the Hawaii Water Carriers Working Group ("HWCWG"). The HWCWG was form as a result of Senate Resolution Number 125, Senate Draft 1, 2020 Legislative Session.

² The Commission maintains a repository of the HWCWG activities and final report on the Commission's website at <https://puc.hawaii.gov/water-carriers/hwcwg/>.

In the report, the HWCWG developed recommendations, which included a two-tiered interim annual rate adjustment for regulated cargo rates along with the requirement for the water carrier to submit a general rate case every three years.

Over the course of the past five years, Young Brothers and Hone Heke have filed various applications for general rate increases, financing, and automatic adjustment mechanisms. While some of these proceedings remain active, for the most part the Commission has approved many of these requests, with conditions. As an example, Young Brothers now has final rates from full resolution of its 2020 Test Year Rate Case, which required Young Brothers to provide refunds to customers. More recently, Young Brothers has included their request for approval of the WICI within their currently open rate case.³ Additionally, Hone Heke has final rates that accommodates their use of Ma'alaea Small Boat Harbor while Lahaina Small Boat Harbor is being rebuilt (with further investigation time certain).

Should this measure take effect, the Commission would be required to establish a WICI for all current (i.e., Young Brothers and Hone Heke) and future regulated water carriers. While the Commission understands the intent for the annual inflationary adjustments of approved rates, the Commission observes the potential for a compounding effect on rates and impact on customers. If the Legislature proceeds with the current language in this measure, the Commission prefers the discretion to determine whether establishing an automatic adjustment mechanism is in the public interest. For this reason, the Commission offers the following amendment for your consideration:

Page 1, Line 5-6

(a) On or before January 1, 2025, for each water carrier subject to this chapter, the commission ~~shall~~ may establish

The Commission appreciates that this measure would provide clear statutory language for any future automatic adjustment mechanism for regulated water carriers.

Thank you for the opportunity to testify on this measure.

³ Docket No. 2024-0255, 2025 Test Year Rate Case.

OFFICE OF THE MAYOR

DEREK S.K. KAWAKAMI, MAYOR

REIKO MATSUYAMA, MANAGING DIRECTOR



Testimony of Steven Hunt

Executive Assistant to Mayor Kawakami
County of Kaua'i

Before the
Senate Committee on Transportation and Culture and the Arts
Thursday, February 6, 2025
Via Conference Room 224 & Videoconference

In consideration of
Senate Bill 21
Relating to Water Carriers

Aloha Honorable Chair Lee, Vice Chair Inouye, and Members of the Committee:

Thank you for the opportunity to submit testimony for Senate Bill 21 – Relating to Water Carriers. I am Steven Hunt, currently Executive Assistant to Mayor Kawakami, writing to express **support** for approval and implementation of the first tier of the Water Carrier Inflationary Cost Index (“WICI”) mechanism.

When the Senate Resolution (“SR”) 125 Hawaii Water Carriers Working Group (“HWCWG”) was formed in 2020, I was the designee representing County of Hawaii Mayor Mitch Roth. In that role, I led the Rates Subcommittee for the SR 125 HWCWG. The focus of the Rates Subcommittee was addressing rate issues facing intrastate water carriers, aiming for fair, predictable, and affordable rates for intrastate water carrier service while also supporting the long-term financial sustainability of the intrastate water carrier.

The consensus recommendation of the Rates Subcommittee was the WICI mechanism – the first tier of which is designed to allow for limited annual rate adjustments reflecting inflation. The intended purpose of this recommendation was to mitigate the potential for sudden and heavy rate increases for customers while supporting the financial stability of intrastate water carriers. By allowing for this relatively limited and simple mechanism, intrastate water carriers should be better able to absorb inflation related cost increases rate – enabling a reduction in the frequency and magnitude of general rate increase requests. Furthermore, it is my understanding that recent rate cases have become increasingly time and resource-consuming for all involved parties. Implementing the WICI mechanism could alleviate some of these burdens by providing a more predictable and streamlined process for rate adjustments.

Approval and implementation of the first tier of the WICI mechanism is an actionable solution to challenges in the current rate framework. By allowing minor periodic adjustments, it provides a more regular cadence for smaller, more manageable rate increases.

Thank you for considering my **support** for this measure.



February 6, 2025

Senator Chris Lee, Chair
Senator Lorraine R. Inouye, Vice Chair
Senate Committee on Transportation and Culture and the Arts

RE: Senate Bill 21 – RELATING TO WATER CARRIERS
Hearing date: February 6, 2025, 3:00 p.m.

Aloha Chair Lee, Vice Chair Inouye, and Members of the Committee:

Thank you for the opportunity to submit testimony on behalf of Young Brothers, LLC (“YB”)¹ offering **STRONG SUPPORT** for Senate Bill 21 – Relating to Water Carriers.

This measure would:

- 1) Require the Public Utilities Commission (“PUC”) to establish automatic adjustment mechanisms for water carriers to address, among other things, inflation and regulatory lag and at a minimum, a water carrier inflationary cost index (“WICI”) mechanism by January 1, 2026.
- 2) Explicitly distinguish a water carrier request to establish an automatic adjustment mechanism from a general rate case application and provide the PUC with broad discretion in the procedural requirements associated with any such request.
- 3) Grant the PUC the authority to waive or exempt a water carrier from any requirement that it determines should not be applied to water carriers or is otherwise unjust, unreasonable, or not in the public interest.

As discussed below, YB believes that these legislative amendments will equip the PUC with the authority and legislative clarity necessary to, not only establish automatic adjustment mechanisms outside of a general rate case, but also to address other issues that may affect a water carrier’s ability to establish and maintain financial sustainability in an evolving and increasingly competitive operating environment.

As competition from air freight, freight forwarders, and national and international water carriers increase, coupled with the advent of online shipping services and the highest inflationary period the nation has experienced since the 1980s, YB’s regulated cargo volumes have stagnated, and its costs have risen – leading to an ongoing struggle to establish and maintain financial sustainability. As a PUC regulated cargo water carrier, unlike other

¹ YB is a common carrier by water, transporting property by tug and barge between the islands of O‘ahu, Hawai‘i, Kaua‘i, Maui, Moloka‘i, and Lāna‘i. YB is currently the only water carrier authorized to transport property under Chapter 271G, Hawaii Revised Statutes (“HRS”) (i.e., the Hawaii Water Carrier Act), subject to the regulatory authority of the Public Utilities Commission of the State of Hawaii (“PUC”). Since 1900, customers across Hawaii have relied on YB’s frequent, regular, and universal sailings to serve as the bridge that connects all communities in this island-state.

cargo carriers, YB cannot independently and quickly adjust its rates or service offerings to account for rising costs or inflation. The existing regulatory framework requires YB to serve all major islands in the state at set rates and sailing frequencies – regardless of whether YB makes a profit - but also requires that YB follow a rigorous and time-consuming regulatory review process known as a “rate case” to recover reasonable costs and for an opportunity to earn a reasonable rate of return on its investments. The period of time between when a utility incurs new costs and when such costs, if justified, are allowed to be recoverable via rate increases, is known in the industry as “regulatory lag”. These issues were exacerbated by the onset of the COVID-19 pandemic and the cascade of economic fallout that continues to be experienced by communities, businesses, and individuals throughout the State.

During the 2020 legislative session, the Hawaii State Senate adopted Senate Resolution No. 125, S.D. 1 (2020), requesting the PUC to convene a working group to discuss and recommend solutions to ensure continuous water carrier service throughout the State, balanced with the need for water carriers to maintain financial sustainability. Said working group (the Hawaii Water Carriers Working Group, hereinafter “HWCWG”) was comprised of 18 key stakeholders from both the public and private sectors² and met 13 times from August 2020 through October 2021 to gather background information on water carriers, Hawaii’s harbor system, and regulatory oversight of water carriers.

In the HWCWG’s final report summarizing its findings and recommendations, the HWCWG recommended the WICI mechanism, a two-tiered³ interim annual rate adjustment for regulated cargo rates, along with the requirement for the water carrier to submit a general rate case every three years.⁴ **The working group found that WICI, combined with a regular three-year cadence for general rate cases, would reduce the administrative burden associated with rate adjustments, provide a more contemporaneous means of pairing regulated cargo rates with inflation adjusted expenses, and be a “significant step forward” with respect to ensuring water carrier service throughout the State and supporting the financial sustainability of the water carrier.**⁵ YB also contends that its customers may value the ability to plan for smaller more predictable cadenced rate increases rather than the less frequent, but less predictable and likely much larger rate increases necessitated under the current ratemaking system. The HWCWG recognized that its WICI

² The WCWG was comprised of (titles listed are the titles that were in effect upon the WCWG’s filing of its final report to the Governor and the Hawaii State Legislature): Senator Ronald Kouchi, Senate President and Senator Gilbert Keith-Agaran, Designee; Representative Scott Saiki, Speaker of the House and Representative Mark Nakashima, Designee; Senator Lorraine Inouye, Chair, Senate Committee on Water and Land; Senator Chris Lee, Chair, Senate Committee on Transportation; Representative Henry Aquino, Chair, House Committee on Transportation; Rick Blangiardi, Mayor, City & County of Honolulu and Matthew Gonser, Designee; Derek Kawakami, Mayor, County of Kauai and Reiko Matsuyama/Michael Dahilig, Designees; Michael Victorino, Mayor, County of Maui and Stacy Crivello, Designee; Mitch Roth, Mayor, County of Hawaii and Steven Hunt, Designee; Leo Asuncion, Commissioner, Public Utilities Commission; Dean Nishina, Executive Director, Office of the Consumer Advocate and Lisa Hiraoka, Designee; Mike McCartney, Director, Department of Business, Economic Development & Tourism and Mary Alice Evans/Dori Palcovich, Designees; Jade Butay, Director, Department of Transportation and Derek Chow, Designee; Phyllis Shimabukuro-Geiser, Chairperson, Department of Agriculture; Jay Ana, President, Young Brothers, LLC and Kris Nakagawa, Designee; Vic Angoco, Vice President, Matson Navigation Co., Inc.; Michael Caswell, Senior Vice President, Pasha Hawaii and Randy Grune, Designee; Donna Domingo, President, ILWU Local 142 and William “Baba” Haole, Designee.

³ The first tier of WICI is an annual rate adjustment tied to GDPPI to address the impact of inflation. The second tier for the WICI mechanism (which was recommended by the HWCWG but is not explicitly addressed by this measure) would also allow water carriers to apply for an interim rate adjustment for justified operating expenses.

⁴ See Final Report of the HWCWG (December 27, 2021), available at: <https://puc.hawaii.gov/wp-content/uploads/2021/12/Final-Water-Carriers-Working-Group-Report-12-01-2021.pdf>

⁵ See Final Report of the HWCWG (December 27, 2021) at 15-17, available at: <https://puc.hawaii.gov/wp-content/uploads/2021/12/Final-Water-Carriers-Working-Group-Report-12-01-2021.pdf>

recommendation could be implemented legislatively but considered implementation by PUC order to be the most expedient method of implementation.⁶

Accordingly, on April 5, 2024, YB filed an application with the PUC seeking implementation of the first tier of the WICI mechanism.⁷ However, on December 12, 2024, the PUC dismissed the application before beginning its independent substantive review, citing to, among other things, concerns over a lack of direct legal authority to support the Commission's review of YB's WICI application outside of a general rate case and the inability to accurately assess the reasonableness of the WICI mechanism while permanent rates remain pending in YB's 2020 test year rate case.⁸

Accordingly, in addition to requiring the PUC to establish automatic mechanisms including at least the WICI mechanism before the end of 2025, this measure seeks to address these concerns by clarifying that requests for the implementation of automatic adjustment mechanisms, like the WICI mechanism, can be addressed outside of a general rate case proceeding. This measure would also grant the PUC the authority and discretion to waive or exempt any water carrier from requirements that are unjust, unreasonable, or not in the public interest. YB hopes that these amendments will equip the PUC with the tools and legislative clarity necessary to, not only initiate its independent review of the WICI mechanism, but also to address other issues that may affect a water carrier's ability to establish and maintain financial sustainability in an evolving and increasingly competitive operating environment.

For the reasons stated above, YB offers **STRONG SUPPORT** for this measure.

Thank you for your service to the State of Hawaii, and for the opportunity to testify offering comments on this measure.

Sincerely,

Kris Nakagawa
Vice President, External and Legal Affairs

⁶ Id., at 17.

⁷ See YB's Application for Approval of the First Tier of the WICI Mechanism, available at: <https://shareus11.springcm.com/Public/DownloadNative/25256/12e77d0e-75f3-ee11-b843-48df377ee718/54312051-83f3-ee11-b843-48df377ee718>

⁸ See Order No. 41249 at 9-10, available at: <https://shareus11.springcm.com/Public/DownloadNative/25256/a9ccf1a8-d3b8-ef11-b848-48df377ee710/8bf3e05c-e3b8-ef11-b848-48df377ee710>, stating "the Commission concurs with the Consumer Advocate and finds that filing of the instant request is premature pending final resolution of the rate case proceeding in Docket No. 2019-0117. [footnote omitted]. As discussed in Order No. 40784 and Order No. 41232 (in Docket No. 2024-0255), prior to final resolution of the pending 2020 Test Year Application, Young Brothers is unable to accurately assess the reasonableness of or need for a potential WICI adjustment or a general rate increase based on a 2025 test year. [footnote omitted]. Practically speaking, prior to resolution of the 2020 Test Year Application, there are no final base rates upon which to assess Young Brothers' revenue sufficiency and calculate a proposed rate increase or WICI adjustment or notify the general public of the same. [footnote omitted] Pending this determination of Young Brothers' final rates in 2019-0117, reviewing a separate mechanism to modify Young Brothers' revenues in an unrelated proceeding may cause confusion and potentially inconsistent results."

Testimony of Matson Navigation Company, Inc.
Support of SB21
Before the Committee on Transportation
February 6, 2025

Dear Chair Lee, Vice Chair Inouye, and Members of the Committee:

Matson Navigation Company, Inc. supports HB914, which among other things, establishes a water carrier cost inflationary index mechanism.

As an island state, Hawaii is very dependent upon our commercial harbors to ensure the continued and unimpeded flow of cargo in and out of our State. It is estimated that over 90 percent Hawaii's imported goods pass through our commercial harbors, including consumer goods, motor vehicles, construction materials, and fuel. Given the critical role of our commercial harbors, it is imperative that the State support dependable and efficient cargo transportation and handling to service our residents and businesses. This measure will provide for water carriers and rate payers more predictability with respect to establishing rates for regulated, intrastate shipping.

Thank you for considering our testimony in support.



Testimony for SB 21, Relating to Water Carriers

Senate Committee on Transportation, Culture & the Arts
February 6, 2025

Aloha Chair Lee, Vice Chair Inouye, and members of the committees,

The Hawaii Harbors Users Group is in strong **support** of SB 21, relating to water carriers.

This bill is a critical step toward ensuring the financial sustainability and operational stability of Hawai'i's interisland shipping transportation sector. Our state depends on a reliable and efficient hub-and-spoke intrastate water carrier system to move goods, supplies, and essential resources between our island communities. Each aspect of the supply chain is vital to our state's economy. However, without a modernized regulatory framework, intrastate carriers of passengers and property are forced to navigate an outdated rate-setting process that does not timely account for inflationary pressures or the rising costs of operation. Establishing a Water Carrier Inflationary Cost Index Mechanism will provide much-needed predictability and transparency, allowing carriers to continue serving our island communities without disruption, and offers a more incremental approach to adjusting intrastate rates, helping local families and businesses absorb cost increases over time and ensuring that rates keep up with rising costs.

The Water Carrier Working Group, convened under Senate Resolution No. 125, SD1 (2020), has studied the challenges facing our interisland shipping sector and identified regulatory lag as a primary issue. The current ratemaking process does not facilitate rate adjustments in a timely manner, making it difficult to respond to rising costs and market fluctuations due to increased competition. This bill provides the Public Utilities Commission with the necessary flexibility and authority to grant waivers and adopt cost-adjustment mechanisms, ensuring that our interisland water carriers remain financially viable while continuing to provide safe, efficient, and affordable service to all businesses and residents. Without these changes, our supply chain will face increasing strain, potentially leading to service reductions and higher long-term costs for consumers.

Mahalo for the opportunity to testify in strong support of this bill.



February 5, 2025

LATE

Senator Chris Lee, Chair
Senator Lorraine R. Inouye, Vice Chair
Senate Committee on Transportation and Culture and the Arts

RE: Senate Bill 21 – RELATING TO WATER CARRIERS
Hearing date: February 6, 2025, 3:00 p.m.

Aloha Chair Lee, Vice Chair Inouye, and Members of the Committee:

I am Erin Jefferson, Senior Vice President of DSR Logistics. Thank you for the opportunity to submit testimony in **STRONG SUPPORT** of Senate Bill 21 – Relating to Water Carriers, on behalf of DSR Logistics.

As a business reliant on inter-island shipping for the distribution of goods across Hawai‘i, we recognize the importance of ensuring that water carriers remain financially sustainable so they can continue providing reliable service.

The proposed Water Carrier Inflationary Cost Index (WICI) mechanism offers a more incremental approach to adjusting rates, helping local families and businesses absorb cost increases over time and ensuring that rates keep up with rising costs. By automatically adjusting rates based on changes in the Gross Domestic Product Price Index (GDPPI), the WICI mechanism brings predictability and transparency to the rate-setting process, with WICI adjustments capped at plus or minus five percent per year to ensure they remain gradual and manageable. This approach allows for smaller, consistent rate adjustments, and a more predictable rate case cycle, which is critical for long-term planning and financial viability.

By helping businesses like ours better manage costs and maintain competitive pricing, the WICI mechanism ultimately supports stable pricing for consumers and stability for water carriers, ensuring goods continue to flow between our island communities. With adjustments capped at manageable levels, the WICI mechanism helps prevent excessive rate hikes, offering both businesses and residents greater clarity and ample time to prepare for any changes, reducing the impact of rate fluctuations on everyday living costs.

This measure is based on the comprehensive recommendations of the Hawaii Water Carriers Working Group (HWCWG), which included 18 key leaders from both the public and private sectors, meeting over 13 sessions from August 2020 to October 2021. The Working Group’s report outlined the need for a predictable, transparent system that allows water carriers to remain sustainable while protecting consumers from erratic rate fluctuations. This recommendation, which DSR Logistics strongly supports, was designed with the input of multiple stakeholders, all working to balance the needs of consumers and carriers alike.

Additionally, the WICI mechanism would address the challenges posed by regulatory lag, or the delayed recovery of investments and costs in utility infrastructure through customer rates.

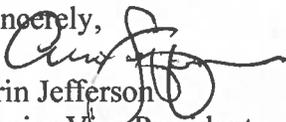


Regulatory lag often occurs with the current complex mechanism for adjusting customer rates. This new proposed framework for setting rates will help to ensure that rising operational costs are recovered more quickly. This is especially important in a period of economic uncertainty, where inflation and rising costs are a concern for businesses across the state.

For these reasons, **we strongly support S.B. 21** and believe the WICI mechanism will benefit consumers across Hawai'i by ensuring more predictable, manageable rate increases and improving the sustainability of water carriers. This will allow both businesses and residents to continue relying on reliable, affordable inter-island shipping services, which are critical to our state's economy and well-being.

Thank you for considering our testimony, and for your commitment to ensuring reliable services for businesses and communities throughout Hawai'i.

Sincerely,



Erin Jefferson
Senior Vice President
DSR Logistics

SB-21

Submitted on: 2/5/2025 4:39:48 PM

Testimony for TCA on 2/6/2025 3:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Christopher Redlew	Testifying for Pacific Transfer LLC	Oppose	Written Testimony Only

Comments:

Simply put this is a bad idea to allow the only intra-island carrier in the market blanket exemptions from the Ocean Carrier law and create a mechanism to allow for automatic rate increases during inflationary periods. Hawaii's intra-state ocean "market" already operates under government sanctioned monopolistic, anti-competitive conditions. This would allow the mainland based, privately held Saltchuk Marine more control over the Hawaii economy and remove any protections, as little as actually exists, for the Hawaii consumer.



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LATE

February 6, 2025

Senator Chris Lee, Chair
Senator Lorraine R. Inouye, Vice Chair
Senate Committee on Transportation and Culture and the Arts

RE: House Bill 914 – RELATING TO WATER CARRIERS

Hearing date: February 6, 2025, 3:00 p.m.

Aloha Chair Kila, Vice Chair Grandinetti, and Members of the Committee:

I am Paul Oliveria, the Chief Operating Officer of Lānaʻi Oil. Thank you for the opportunity to submit testimony in **STRONG SUPPORT** of Senate Bill 21 – Relating to Water Carriers.

As a critical business servicing LānaʻI with various types of fuel necessary for transportation, power and construction activities, YB has been indispensable in our operations. The products we ship weekly are of vital importance to the people of LānaʻI and any disruptions to shipping directly affect our ability to provide for this community. Overall, YB has provided fast, efficient, and reliable transportation of our goods.

The proposed Water Carrier Inflationary Cost Index (WICI) mechanism offers a more incremental approach to adjusting rates, helping local families and businesses absorb cost increases over time and ensuring that rates keep up with rising costs. By automatically adjusting rates based on changes in the Gross Domestic Product Price Index (GDPPI), the WICI mechanism brings predictability and transparency to the rate-setting process, with WICI adjustments capped at plus or minus five percent per year to ensure they remain gradual and manageable. This approach allows for smaller, consistent rate adjustments, and a more predictable rate case cycle, which is critical for long-term planning and financial viability.

By helping businesses like ours better manage costs and maintain competitive pricing, the WICI mechanism ultimately supports stable pricing for consumers and stability for water carriers, ensuring goods continue to flow between our island communities. With adjustments capped at manageable levels, the WICI mechanism helps prevent excessive rate hikes, offering both businesses and residents greater clarity and ample time to prepare for any changes, reducing the impact of rate fluctuations on everyday living costs.

This measure is based on the comprehensive recommendations of the Hawaii Water Carriers Working Group (HWCWG), which included 18 key leaders from both the public and private sectors, meeting over 13 sessions from August 2020 to October 2021. The Working Group's report outlined the need for a predictable, transparent system that allows water carriers to remain sustainable while protecting consumers from erratic rate fluctuations. This recommendation, which Lānaʻi Oil strongly supports, was designed with the input of multiple stakeholders, all working to balance the needs of consumers and carriers alike.

Additionally, the WICI mechanism would address the challenges posed by regulatory lag, or the delayed recovery of investments and costs in utility infrastructure through customer rates. Regulatory lag often occurs with the current complex mechanism for adjusting customer rates. This new proposed framework for setting rates will help to ensure that rising operational costs are recovered more quickly. This is especially important in a period of economic uncertainty, where inflation and rising costs are a concern for businesses across the state. Additional strain to YB's financial position could result in drastic decisions including selling critical assets like the newly built *Kalohi* barge that is customized to serve both Lānaʻi and Molokai, and reducing service offerings.

For these reasons, **we strongly support S.B. 21** and believe the WICI mechanism will benefit consumers across Hawaiʻi by ensuring more predictable, manageable rate increases and improving the sustainability of water carriers. This will allow both businesses and residents to continue relying on reliable, affordable inter-island shipping services, which are critical to our state's economy and well-being.

Thank you for considering our testimony, and for your commitment to ensuring reliable services for businesses and communities throughout Hawaiʻi.

Sincerely,



Paul Oliveria
Chief Operating Officer
Lānaʻi Oil Company